

**A Study of the Factors Influencing the Laws and
Management of Family Business Succession in Saudi Arabia**



A thesis submitted for the degree of Doctor of Philosophy (PhD)

by

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Declaration

Candidate's declarations:

I, Riyadh Alshaeel, hereby certify that this thesis submitted in partial fulfilment of the requirements for the award of Doctor of Philosophy (PhD), Abertay University, is wholly my own work unless otherwise referenced or acknowledged. This work has not been submitted for any other qualification at any other academic institution.

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Supervisor's declaration:

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Certificate of Approval

I certify that this is a true and accurate version of the thesis approved by the examiners, and that all relevant ordinance regulations have been fulfilled.

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Dedication

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Abstract

The main purpose of this study is to explore, the family business in the Saudi Arabian context and to identify the factors that underpin the succession of the business. Although family businesses have an important role in the economy, the majority of Saudi family firms appear to be failing to achieve intergenerational succession to maintain the businesses in the future.

The goal of this study is to focus on the way the continuity of the family business is affected by transferring the power and management of the company to the next generation, by investigating the factors that might relate to the succession process. It also aims to explore the role of the founder, and to recognise the influence of the next generation preparation plan regarding the succession. This qualitative study was carried out through semi-structured, in-depth interviews, conducted with the founders and the next generations of Saudi family businesses.

The findings show that there is a succession problem facing Saudi family businesses. The founder has extraordinary power, which derives from social culture. However, the succession plan and preparing the next generations is one of the main roles for the founder. In addition, the founder's management styles and his/her awareness of the importance of strategic planning to align the family and business goals, the relationships between family members, the conduct of Islamic values and beliefs, and the successor preparation plan were all found to significantly influence the prospects for family business continuity.

This study will add more literature on family business succession in the Middle East, and, more specifically in Saudi Arabia and also makes a significant contribution to knowledge in practice. The implications of this study are that family businesses in Saudi Arabia should prepare a succession plan from an early time, to avoid the collapse of the company in the future. Moreover, the application of corporate governance and the formulation of regulations that guarantee the rights and justice between partners contribute to the stability and sustainability of the company. Furthermore, the separation of the management from the ownership, and implementation of strategic planning for the company's development and optimisation of the resources to compete in the market by attracting managerial talent from outside the family business are all important factors in ensuring continuity.

The thesis also helps to provide a clear insight into the family businesses that constitute the majority of the private sector in Saudi Arabia, to improve the understanding of overseas investors wishing to establish a partnership with companies of this type.

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CHAPTER ONE

Introduction

Introduction

1.1 The Rationale for the Study

Family businesses are the most common form of business, and among the most widespread organisations in the world (Pistrui et al., 2000; Olson et al., 2003; Astrachan, 2010; Carr and Bateman, 2010; Gupta et al., 2011). According to Muske and Fitzgerald (2006), family firms play a significant role in the macro economy and also provide substantial assets to the micro economy (Davis, 1983; Muske and Fitzgerald, 2006; Oukil and Al-Khalifah, 2012). These businesses play an important role both in developing and developed economies (Gomez-Mejia et al., 2003; Sharma, 2004; Collins and O'Regan, 2011). The family-owned businesses contribute to the global GDP by 70–90%. They represent more than 70% of the overall businesses in the world employing about 70% of labour forces in the world (Al Masah Capital Management Limited, 2011).

Family businesses have played a vital role in the markets of Asia and it is predicted such businesses will continue to retain the same level of importance for the majority of countries (Miller and Le Breton-Miller, 2005; Miller et al., 2007). Moreover, due to the significance of family businesses, academia has recognised their importance as a subject of research that requires increased investigation (Chrisman et al., 2006; Yu et al., 2012). Research into the functioning of family businesses has developed during the past three decades (Zahra and Sharma, 2004), with their influence frequently being referenced in leading international business journals (Chrisman et al., 2008).

According to Achoui (2007), there were around 5,000 medium to large family firms in the Middle East, with net assets totalling USD 600 billion. These companies constitute 75% of the private sector economy and employ about 70% of the labour force in the

Gulf Cooperation Council (GCC) region. He also reports that these companies are a key component of the private sector, which comprises around 95% of total Saudi companies (Achoui, 2007). Recently, Saudi Arabian family businesses have been reported to constitute 48% of the companies in the Middle East and North Africa region, with Saudi families obtaining 60% of the total wealth generated (Al Masah Capital Management Limited, 2011). According to the Saudi Chamber of Commerce, family businesses in Saudi Arabia are estimated to hold around 250 SR billions in domestic investment (almost a quarter of the Kingdom's Gross Domestic Product (GDP), with the majority of franchises and agencies owned by the leading 100 Saudi family companies (Ramady and Sohail, 2010).

1.2 Significance of the Research Area

The rationale for studying family business succession is derived from the fact that family business researchers have recognised that succession planning is among the most important strategic concerns in family businesses. Nevertheless, succession failure continues to be the main reason why a family business ends. Many studies have found that the failure rates following the founders' generation are high (Ward, 2011); consequently, further investigation of the succession process is justified.

The continuity of family business within generations, in general, does not last for long. Studies have shown that the survival rate from first to the second generation is around 30%, while the rates from second to third then to fourth generation are only 10% and 4-6% respectively (Beckhard, 1983; Ibrahim et al., 2001; Cater, 2006; Pongcharoenkul, 2014). Succession between generations plays a significant role in the continuity of a family firm; as pointed out earlier, if the first generation (the founders) plans the succession this would increase the survival rate. There is a lot of evidence in the

professional and academic literature suggesting that family businesses' founders often failed to plan the succession and this failure can be seen at least as poor management practice (e.g. Chrisman et al., 2003b).

1.3 Problem Statement

The data revealed from family business studies have been more apparent and accessible over the past 25 years, as can be seen by the increase in the research in the field. Nevertheless, there remains much to be learned about the family business management and succession (Craig and Salvato, 2011; Sharma and Chua, 2013). However, the current literature on family businesses was based on the studies of American and European family firms, and thus in the context of Western countries (Sharma and Chua, 2013). Thus, to improve the understanding of family business succession and the field in general, it is essential for more research to be conducted on family businesses based in other parts of the world, which can examine the applicability of existing theories (Craig and Salvato, 2011). Despite the problem of succession failure being diagnosed globally, frequently resulting in business closure, comparatively few studies have been conducted to understand better how to help family businesses minimise that risk (Ip and Jacobs, 2006).

As there has been little research that explicitly focused on family businesses in the Gulf Council Countries, this study will explore the Saudi context (Zain and Kassim, 2012). Family businesses in Saudi Arabia in general, and specifically the succession issues in companies facing the transition time when the new generation start joining the businesses and the experiences of first, second or third generation family business owners have not yet been explored in depth.

This study focuses on the family business in a Saudi Arabian context. To the best of the researcher's knowledge, there are not enough academic researches identify the family business in general and the impact of succession in the context under study. In Arab societies, there is a lack of literature on the family business succession which is implicitly there is a lack of data and information about it. However, family business succession is a complicated and unstable process. Although a family business is recognised as the dominant form of enterprise in Saudi Arabia, the drivers of successful succession are not well understood, which puts the family owned business under threat. Therefore, the purpose of this study is to present a deep insight on family businesses, including identifying the factors related to continuity, the founders' role in preparing the succession, and the next generation development plan.

1.4 Research Questions and Objectives

The goal of this study is to focus on the continuity of the family business in Saudi Arabia by investigating the transfer the power and management of the company to the next generation and considering the factors that might affect the succession process. The main research question will be “How is the succession plan prepared and applied in Saudi Arabian family companies?” This will also involve identifying the factors that have an impact on this succession plan.

1.4.1 Research Objectives

- 1- To investigate the succession process of the family business in Saudi Arabia.
- 2- To explore the role of the founder in the succession process in Saudi family businesses.

3- To identify the influence of the next generation preparation programme over the continuity of family businesses in Saudi Arabia.

4- To investigate the reasons that might lead to success or failure of the continuity of Saudi family businesses.

To meet these objectives, the following questions, have to be answered:

1.4.2 Research Questions

1- How can the succession and transfer of power between generations be managed in the Saudi Arabian family businesses?

2- What is the role of the founder in the family business succession?

3- What are the factors of success or failure that influence family businesses' continuity in Saudi Arabia?

4- What are the criteria for the preparation programme for the next generation to join their family businesses in Saudi Arabia?

1.5 The Structure of the Thesis

This thesis is presented in seven chapters as follows:

Chapter One: This chapter presents an overview of the study by explaining the rationale for the study, the research objectives, the research questions, the significance of the study, and the structure of the thesis.

Chapter Two: This chapter presents an overview of the Saudi Arabian socio-economic, legal and political context, including a description of the Saudi economy in general and family firms particularly. It also represents the *Shariah*, as Islamic law, and its teachings and ethics that guide business practices and provides a brief explanation of the Islamic inheritance law in relation to the family business.

Chapter Three: This chapter seeks to provide a deep understanding of family businesses through their definition and a discussion of from different viewpoints. This will be followed by an illustration of the uniqueness of family business. The role of the family will be explored and its involvement in and impact on the business. In addition, the chapter will discuss the value system of the family in relation to the family business. A selection of models will then be presented, followed by a discussion of business ownership and possible logistics used to run the family businesses. The concentration of control will be discussed from several aspects, followed by conflict perception.

Chapter Four: This chapter focuses on the definition of succession in a family business and the importance of succession planning for business continuity for future generations. It reviews the debate about the concept of the succession process being either a single event or an on-going process. The chapter will then review the most important ideas and characteristics of a number of succession models that are concerned with the transfer of leadership from first generation to a next generation. Then, there will be a review and discussion of the factors that affect the success or failure of succession. The role of the founder will be emphasised to a greater degree, as well as the importance of next generation preparation plans and their role in a succession process.

Chapter Five: This chapter covers, briefly, a review of the literature on the research philosophy, and the research method approach, followed by a detailed discussion of the principal components of the chosen design, including the nature of the quantitative and qualitative research. It also discusses the theory underlying the methods used, to help to understand the reasons for undertaking the research. Moreover, it will explain the processes employed to collect the data about family business succession in Saudi Arabia required to achieve the research objectives. Therefore, the semi-structured interview is

discussed as the primary method of collecting the research data, including interview questions construction translation. Ethical considerations, the pilot study and field study undertaken, and the validity and reliability of the data collected are also explained.

Chapter Six: This chapter presents the findings. It includes the themes obtained from the analysis of the data collected from interviews with the family businesses' founders and next generations in Saudi Arabia. The chapter concludes with a summary of the main findings.

Chapter Seven: provides a discussion of the main findings presented in Chapter Six. Each of the findings is discussed in relation to other studies presented in the literature reviewed in Chapters Two, Three, and Four.

Chapter Eight: presents the summary and conclusions of the study. It also covers a reconsideration of the research objectives, the contribution of the study to knowledge in theory and practice, the limitations of the study and a proposal for future research.

CHAPTER TWO

The Socio-Economic Background of Saudi Arabia: The Research Context

2 Socio-Economic Background of Saudi Arabia: The Research Context

2.1 Introduction

The chapter introduces the socio-economic context of the country under study, Saudi Arabia. It starts with a brief overview and general information regarding the legal and political system and the Saudi economy in general and family firms particularly. It also describes Saudi national culture and its effects on business, including the role of *Shariah*, as Islamic law, and its principles and ethics that influence business practices. Finally, it gives a brief explanation of the Islamic inheritance law in relation to the family business.

2.2 Saudi Arabia

Saudi Arabia is one of the fastest-growing countries worldwide, as the country has recently seen many improvements in its competitiveness and an extensive development in infrastructure (World Economic Forum, 2010). Since its establishment, Saudi Arabia has also secured solid relationships, not only with Islamic nations and countries, but also with more economically advanced nations (Al-Maghrabi et al., 2011). This is shown in the fact that English is the standard language of business in the global context, despite Arabic being the official language of the entire original population.

2.2.1 Location and population of Saudi Arabia

The Kingdom of Saudi Arabia is the biggest country in the Middle East, especially in the Gulf region; the total size of the Saudi population is almost 30 million according to the latest census, from 2013 (Central Department of Statistics and Information, 2013).

Saudi Arabia is viewed a prominent member of the Gulf Cooperation Council (GCC), which consists of six countries: Saudi Arabia, the United Arab Emirates, Kuwait, Oman, Bahrain, and Qatar.

Saudi also has a significant position as the birthplace of Islam. The holy mosques are located there; more than 1 billion Muslims pray facing towards the country and millions of Muslims around the world visit the country every year to perform either *Hajj* or *Umrah*. The Kingdom was founded in 1932 by King Abdulaziz Alsaud.

The capital city of Saudi Arabia is Riyadh, and the official religion is Islam, which has a major impact on social, political and economic structures. According to the report issued by the Central Department of Statistics and Information (CDSI, 2013) the Kingdom's population rose by 2.6 percent in 2014, to 30.7 million, of which Saudis constituted 67.3 percent of the total (20.7 million). Interestingly, 2014 estimates of the Kingdom's population by gender indicate that the male population accounted for 56.1 percent while the female population represented 43.9 percent of the total population while of the total non-Saudi population, 68.2 percent were male and 31.8%. (Sama, 2015).

2.2.2 Saudi legal and political system

The Kingdom of Saudi Araba constitution is based on the Holy Quran and the Sunnah of the Prophet Muhammad, and therefore, *Shariah law* (Heck, 2005). The King is Prime Minister and the Head of the Government, as well as being he viewed as the most powerful person in Saudi society (Rice, 2004; Ramlall et al., 2012).

In addition, as a part of the government, there is a Council of Ministers, and a Consultative Council, or *Shura* consisting of 150 members, selected by the King, which has the authority to set the country's economic system (Heck, 2005; Ai-Shura, 2011).

The principal policies of Saudi Arabia depend on multiple constituents, such as politics, history, economics, religion and geography. Moreover, Saudi Arabia is working to have a healthy relationship with other countries. Saudi Arabia intends to develop powerful relationships with the Gulf countries and the Arab world in general, by setting a cooperative environment between them; globally this can be done through groups like Gulf, Arab and Islamic states, among other global countries (Affairs, 2011). Furthermore, Saudi Arabia is one of the founding members of the United Nations, and it has a system that depends on factors such as fairness, equity, and transparency, that the country applies regarding economic, social and political factors, to sustain a successful country. The Kingdom believes in official self-defence as a part of international law (Affairs, 2011). The resources of oil have a significant impact in Saudi Arabia; the country is estimated to be one of the central economic and political forces in the region. Because of oil, the country has also begun to support the poor in developing countries (Zuhur, 2011).

Businesses in Saudi Arabia are the responsibility of two government agencies:

- The Ministry of Trade and Industry essentially presents the commercial registration certificates, then controls all types of businesses and governs all the private sector activities.
- The Saudi Arabian General Investment Authority (SAGIA) is an organisation that assists international investors to start up their business in Saudi Arabia, working with organisations from the United States, the United Kingdom and Japan (Zuhur, 2011).

2.3 Saudi economy

Saudi Arabia has an economy largely based on its sale of petroleum and its by-products, which have made it the largest and strongest economy in the Middle East region. It possesses about 16% of the world's proven petroleum reserves, ranks as the largest exporter of petroleum, and plays a leading role in OPEC. The petroleum sector accounts for roughly 80% of budget revenues, 45% of GDP, and 90% of export earnings (Cia, 2016). Before the discovery of its vast oil reserves, the Saudi economy depended mainly on commercial exports, agriculture, and tourism. Tourists consisted largely of pilgrims who came to Mecca and Medina for their Hajj.

Moreover, the economic system of Saudi Arabia gives the freedom to private sector organisations to carry out their businesses activities, which includes attracting the foreign investment, supported through different incentives to participate in the entire scope of economic actions and development plans of the country (Datamonitor, 2011). This is aided by the freedom for individuals and organisations to do business without restriction on the flow of capital, although business activities are controlled by some particular limitations within the Islamic framework, for instance, trading in alcohol and pork products is prohibited in Saudi Arabia (Ali, 2009; Ramady, 2010).

2.3.1 Economic Growth

The average daily Saudi oil production rose by 14%, from 8.2 million barrels in 2010 to 9.3 million barrels in 2011, reaching a production rate of 11.7 million barrels per day by 2013 (Sama, 2015). Most of the oil fields, including the largest onshore field, in *Ghawar*, and the largest offshore field, at *Safaniya* in the Arabian Gulf, are located in the Eastern Province. As a result of oil production, the GDP grew considerably from 1983 to 2014, with the annual growth rate rising from 2.7 % in 2013 to 3.5 in 2014

(Sama, 2015). However, recent oil price drop might affect GDP and have a ripple effect on the private sector particularly, family businesses.

2.3.2 The Labour Force

The latest statistics issued by the Ministry of Civil Service indicate that the number of employees in the government sector (Saudis and non-Saudis) stood at 1.24 million at the end of 2014. Saudis represented 94.2 percent of the total employees in that sector. A breakdown of the employees shows that the number of Saudi male workers amounted to 717.6 thousand at the end of 2014 while that of Saudi female workers reached 451 thousand (Sama, 2015).

The number of non-Saudi male workers at the end of 2014 amounted to 36.1 thousand while that of non-Saudi female workers was 36 thousand. The figures issued by the Ministry of Labour show that the number of workers in the private sector (Saudis and non-Saudis) was 10.0 million at the end of 2014. The ratio of Saudis working in the private sector to total workers in the sector was 15.5 percent.

The total number of the Saudi workers, male workers at the end of 2014 was 1.1 million, and that of Saudi female workers was 0.4 million, and the number of non-Saudi male workers at the end of 2014 stood at 8.3 million, and that of non-Saudi female workers was 0.2 million (Sama, 2015).

2.3.3 Family Businesses in Saudi Arabia

The private sector in Saudi Arabia is in rapid growth, due to profitable investment opportunities. In 2009, the total number of businesses operating in Saudi Arabia reached the figure of 763,589 (Oukil and Al-Khalifah, 2012). Simultaneously with this growth, the family businesses have had the chance to develop. Most Saudi companies are family

owned, and most of the successful ones are less than 65 years old. According to statistics from the Saudi Arabian Monetary Agency (SAMA), referred to in the 6th International Conference paper of King Fahd University of Petroleum and Minerals (KFUPM) on “HRD in Saudi Family Business,” the total number of such family firms constitutes 90% of the total companies in Saudi Arabia (Matlay et al., 2012). Moreover, At least, 45 percent of the largest Saudi companies can be perceived as a family business, e.g., Al-Zamil Group, Al-Rashid Group, Al-Rajhi Group, National Commercial Bank, and BinLadin Group (Achoui, 2009). Moreover, family businesses in Saudi Arabia are the richest companies in the Middle East and North Africa region; 48% of the Saudi families have more than 60% of the wealth (Al.Masah.Capital.Management.Limited, 2011). Although this information shows the increase in the family businesses, which constitute the majority of the private sector in the Saudi Arabia, this increase has not been without of difficulties. The next section is about the Saudi culture to gain deep understand about the environment that the family businesses are operating in it.

2.4 Saudi Arabian Culture

Culture in Saudi Arabia is a unique blend of Islam with Arab traditions. Almost all Saudis are Muslims and Islam is the recognised religion throughout Saudi Arabia. In Islam, there is a total submission and obedience to one God (Allah), and Muslims believe Allah to be a divine, omnipotent creator. They look to Allah exclusively for their values and standards, orientation, ethics and morals, ideas, institutions, legislature and laws. Bjerke and Al-Meer (1993) explain that Allah reveals his guidance through the Prophet Mohammed and that Islam is vital for mankind. Islam views the Prophet Mohammed as the last of God’s prophets and messengers to bring revelation to mankind, after Jesus, Moses, Abraham and others. Muslims believe in that the message

that he brought was not for an individual or certain group of people, but for the whole of mankind (Bjerke and Al-Meer, 1993). The Muslim holy book is the Quran, which Mohammed brought, as the Torah was revealed to Moses and the Bible was revealed to Jesus. All guidance in the religion is based on the Quran and the actions of the Prophet (the Sunnah). Islamic teachings are so embedded in Saudi society and widely followed that it produces a fairly homogenous culture, as in most Middle Eastern nations (Adeyemi-Bello and Kincaid, 2012).

One of the most important and distinctive aspects of Arab culture is religion. Many researchers have identified religion as a dominant variable which affects most aspects of Arab culture (Shahin and Wright, 2004; Kalliny and Gentry, 2007). It is considered to be the factor which has helped shape culture within Islamic countries the most, and within Arab countries in particular. Arabic language, social life, and traditions are all rooted in Islam, which is considered to be a complete way of life (Kavoossi, 2000). Nevertheless, although Islam is rooted in the daily life of every Muslim, a Muslim's behaviour is not a complete reflection of Islam (Al-Shaikh, 2003). Al-Shaikh points out that the dominant political and economic systems are a mixture of capitalism, socialism, and secularism. This is supported by the fact that Arab culture has been affected by globalisation and, in particular, Western behaviour. However, this does not deny the fact that Islam is still the most prevalent religion in Arab countries and that it affects almost every aspect of behaviour. Islam strengthens certain characteristics of the Arab culture such as honesty, loyalty, flexibility, and trust (Ali, 1995).

Islam permeates through all aspects of life in Saudi Arabia, and there is a strong alliance between Islam and politics. All decisions, including business decisions, are made in consideration of Islam (Elamin and Alomaim, 2011). Saudis believe that ultimate

control over the environment is in the hands of God, which generates a fatalistic attitude, but people are taught to make every effort possible to better their lives (Mellahi, 2007). It is clear that Muslim culture and values strongly influence Saudis in everything they do and in their day-to-day working lives. In addition, it affects the relationships between the various levels of the workforce. Moreover, the organisational culture in Saudi Arabia also originated from the traditions and customs developed by powerful and influential social relations between members of family and society. Businesses in Saudi Arabia represent a source of strength for the family in terms of social influence by strengthening its financial position, which is achieved through full or high ownership percentage of the company, managing and controlling decision-making (Davis et al., 2000).

The teachings of Islam construct the behaviour of the community where it creates a strong coherent culture covering all aspects of society (Alanazi and Rodrigues, 2003; Baker et al., 2011). Furthermore, the cultural study conducted by Hofstede (1991) showed Arab culture to have a high power distance, high uncertainty avoidance, to be strong in terms of collectivism, masculine, and have short time orientations (Branine, 2011).

Power distance is a measure of the interpersonal power or influence between a superior and a subordinate as perceived by the subordinate. Moreover, this dimension is referred to the extent to which the less powerful members of institutions and organisations within a country expect and accept that the power is distributed unequally (Hofstede, 2001).

Hofstede (2001) noted that there is a positive relationship between power distance and paternalism. In the power distance dimension, decisions are made on the basis of favours to subordinates and loyalty to superiors, not on the basis of merit. Nations with a large power distance, where inequality is accepted, emphasise a dependency

relationship between managers and subordinates (Hofstede, 2001). Such nations include the Arab countries which scored 80 out of 104; they were ranked the seventh amongst the 50 countries included in the study. In contrast, cultures with lower power distance such as Austria are characterised by agreement between managers and subordinates, to minimise inequality (Obeidat et al., 2012).

Several studies (Hofstede, 1980; Mellahi, 2007; Branine, 2011; Elanin and Elnin, 2011) show that the Arab world and GCC countries, particularly Saudi Arabia, have large power distance because, in particular the leaders, wealthy, religious, educated and elderly people, have higher positions, authority and income that followers do not have, although the different relationships of people with each other gives different levels of power distance in practice perspective.

Bjerke and Al-Meer (1993) found that Saudi managers scored high on power distance, suggesting that there is a social distance between superiors and subordinates regarding authority. Moreover, Saudi managers also seem to have a high uncertainty avoidance orientation and to prefer a close-knit social framework in both organisational and institutional life (Bjerke and Al-Meer, 1993). Therefore, they are generally classed as risk avoiders, so important decisions are most often made at the highest level of management.

The collectivism dimension refers to the extent to which individual self-interest is ranked over the concerns of the group (McCoy et al., 2005). It anticipates fundamental issues about an individual's motivation and about the organisation and functioning of society as a whole (Hofstede, 1980, 1991). The collectivist cultures are characterised by trust and loyalty, as evidenced by the appearance of the strong/close group. Moreover, they are governed by customs and traditions of the society, and individuals

expect support from relatives and friends. Therefore, relations take a broader nature in society (Branine, 2011). In contrast, in a society with an individualist culture, individuals' interest is centred on themselves and their close family (Hofstede, 2001). In Hofstede's, (2001) classification, Arab countries scored 38 out of a possible score of 100. They were rated to have a more collective than individualistic culture. It is worth pointing out that there is a negative relationship between this dimension and the power distance dimension (Obeidat et al., 2012). Countries with large power distance, such as Arab countries, tend to be more collectivist. In such countries, people are more dependent on groups as well as on power figures than on individuals (Hofstede et al., 1997).

Moreover, Assad (2002) found that social ties strongly influence systems for recruitment and promotion, personal relations and family position, which, as Bjerke and Al-Meer (1993) suggest, is because the society in which Saudi managers live, values family and friendship highly and these valued relationships remain important and influential factors in the way that institutions and groups function (Assad, 2002). Saudi managers rely on these relationships for the day-to-day functioning of their organisations and to ensure that what needs to be done is done (Al-Rasheed, 2001). According to Idris (2007), that Saudi culture can be described as collectivistic with a strict devotion to Islamic teachings which dictates social behaviour and provides a strong nationwide cultural fabric. The widespread collective thinking of Saudis impacts on business and dictates relationships within the business. Therefore, social organisation is designed for collectivist groups such as the family or any of the layers of tribal networks to further their particular interests (Idris, 2007).

The next section will present the Islamic law that regulates all aspects of life in Saudi Arabia, as well as the business.

2.5 Shariah as Islamic law

Islam, as a religion, is associated with all aspect of a Muslim's life, even their business life, by creating means and directions regarding trading and commerce (Uddin, 2003).

There are two official sources of Islamic law: The Quran and the Sunnah. The holy book, the Quran, provides Allah's instructions (Abeng, 1997; Ahmad, 2011). For example, the Quran presents clear provisions for the legitimacy of business transactions: the main and fundamental principle upon which Islamic finance rests is the prohibition of interest or *Riba* (Williams and Zinkin, 2005).

The second source is the Sunnah; it explains and validates the Quran's instructions and values. Muhammad (May the peace and blessing of Allah be upon him) presents precise and complete cases of the implementation of the laws of Allah (Alomar, 2014). Moreover, there are two additional sources of Islamic law: legal consensus or (*Ijma*), which outlines a method of building laws based on consensus amongst the majority of Islamic scholars over the terms rooted in the Quran. Moreover, the Sunnah and analogy or (*Qiyas*), which indicates a scientific process of deduction by analogy, are used as guidelines for situations that are not dealt with adequately, either in the Quran or Sunnah (Williams and Zinkin, 2005; Dusuki and Abdullah, 2007). However, the religion of Islam comprises a set of primaries on a spiritual level, such as faith, worship and ethics, which never change. Their manifestation in other areas, such as business, economics, politics, social issues and other activities, requires adaptability according to time and need. This is represented in the Islamic law of *Shariah* (Dusuki, 2008; Ketola et al., 2009). In fact, Islamic law is recognised as one of the world's known legal systems; it not only covers religious aspects, but also many perspectives of common life. Nevertheless, the range of *Shariah* spreads over the other laws (Ketola et al., 2009), as

it presents obvious direction for businesses through ethical commands obtained from the Quran and Sunnah (Uddin, 2003; Ahmad, 2004; Williams and Zinkin, 2005).

2.5.1 The Principles and Ethics of Business in Islam

Islam presents an overall ethical system for each perspective of social life (Azzam and Ahmad, 2010). Further, the ethical system's purpose is to work to reduce the issues of inequality in the social and economic environment (Ullah et al., 2014).

The ethical direction is obtained from the Quran and Sunnah (Dusuki, 2008) but Muhamad (2007) claims that ethics are shaped and presented the followers' behavioural models, in terms of faith, through their activities. In other words, ethics point back to the collection of proper commands and laws supervising all perspectives of a Muslim's life, also covering business activities (Muhamad et al., 2016). From the Islamic view, business is firmly combined with ethics, as it promotes decent ethical manners in business. This is stated in several points in the Quranic verses and traditions of the Sunnah (Uddin, 2003).

Thus Islamic law presents pure guidance and commands as regulation for any Muslim associated with business activities, including businessmen, customers, sellers, and buyers (Ahmad, 2011). Accordingly, Islam marks what are allowable, and forbidden activities in business (Abeng, 1997; Williams and Zinkin, 2010). For example, Islam forbids usury, bribery, gambling, and monopolies, because these actions cause hatred and anger, launch poor morals into society and also take benefit from the poor (Williams and Zinkin, 2010).

Sharia law takes into account the social implications of a business transaction and thereby serves the greater community interests. For this reason, the main and fundamental principle upon which Islamic finance rests is the prohibition in interest or

Riba (Walsh, 2007). “*The concept is meant to outlaw all forms of wrongdoing and give the financier an interest in the venture*” (Walsh, 2007: p757). This means that there is a need to design an economy and society based on risk-sharing, fair dealing, and equity. Consequently, in Sharia law, “*the justification that interest is the cost of using money or that a loan is an investment is rejected in favour of ethics*” (Walsh, 2007: 757). The financier of a venture should not be guaranteed a profit without sharing in the risk.

Khan (2011), argues that Islam introduced a financial system based on the moral principles which promote justice, fair trade, equality and ethics in order to create a healthy and supportive society, and, moreover, in general, to protect the poor debtor from the rich creditor. Hence, the Islamic finance system proposes interest-free loans and investments. Khan highlights that, although it seems impossible to work without interest, as interest is considered an important variable in today’s business world, Islamic finance has introduced other solutions for business (Khan, 2011).

According to Islam, business actions can be recognised as worship, and merit God's blessing and rewards, but this depend on two conditions: the work should be exact work for God's sake and aligned with the instructions of Islam (Williams and Zinkin, 2005).

Abeng (1997) identifies two principles in Islamic business practice: liberty and fairness. Firstly, liberty is when the individual has the freedom to own assets and individuals have the free will to carry out any action compatible with the teachings of the Islamic religion (Abeng, 1997). Therefore, Muslims are assumed not to engage in such forbidden actions as trading with usury or receiving bribes. Moreover, Islam stresses that business activities, whether they are contracts or donations, should be conducted with honesty, and trust (Kumar and Che Rose, 2012).

Secondly, fairness is related with liberty, and stressed in Islam. It concerns the completion and satisfaction of commitments, and agreements. Accordingly, Muslims, who are committed to business are assumed to be honest, truthful and reliable in their activities (Abeng, 1997; Rokhman, 2010). Behaviour such as cheating and lying is prohibited in Islam, especially in business. The Islamic concept of fairness in business concerns promoting equality and social justice and supports the dissemination of wealth. This leads to satisfying the fundamental requirements of society, without discrimination, through *Zakat*, and charities (Jalil et al., 2010). The next section will give a brief description of the Islamic inheritance law with relation to the family business.

2.5.2 The Islamic Inheritance Law

The idea of inheritance is a common idea that been used from the earliest human societies, and present in all religions, but with different aspects and application. Inheritance law in the Islamic religion has great significance because it regulates the financial rights of the heirs. In Muslim Arab cultures, the law of succession stipulates that each single person receives the same share. However, although the distribution of inheritance and succession are important topics, hardly any studies about it are found (Palliam et al., 2011b).

Islamic Inheritance Law was obtained from the holy book (Quran), In *An-Nisa* (4): 7, it is clearly stated “From what is left by parents and those nearest related, there is a share for men and a share for women, whether the property be small or large, a determinate share.” (al-Quran, *al-Nisa*’ 4:7). The verse explicitly recognizes the right of men and women in any property of deceased parents or other relatives (Afghan and Wiqar, 2007). Property involves all things that are bequeathed by the deceased at the time of his/her

death and owned by him/her. It includes any object of worth, money, land, as well as businesses. The property also includes shares in a company or partnership (Mohd Salim et al., 2012). Islamic Inheritance Law is a complete method that manages the laws and rules to spread inheritance between all successors, with the intention to act justly to all levels of successors and to avoid differences between them (Awang, 2008). The method of distribution is called (*Faraid*) which is founded on the verses of inheritance in Surah *al-Nisa'* (Chapter 4; Verses 11, 12 and 176) of the Holy Quran and the prophetic traditions. A number of people have the right to particular shares of a deceased's estate under the scheme of *Faraid*. However, these people are categorised into two categories. The first is named as the Qur'anic heirs (primary), as they are stated in the Quran, with certain portions. The second is related to as residuary heirs (secondary), who might be qualified to either the entire or balance of the property, according to specific circumstances (Awang, 2008). Moreover, after all debts and liabilities of the deceased are paid, the remainder of his/her property will be distributed according to the rules of Islamic law calculations *faraid*. Under Islamic Law, the primary beneficiaries of a deceased person are his/her, direct heirs, for example, spouse(s), children, parents and grandchildren (if children are deceased only). The grandchildren that are entitled are only the son's son or the son's daughter. However, daughter's children are not entitled to inherit, even if the daughter is deceased. In the absence of some or all of these heirs, the secondary beneficiaries become heirs under various conditions. In the absence of a particular heir for example an Uncle if and when he/she is entitled, the children of that heir become eligible (Bulbul, 2013).

The family business has an exceptional business structure, as it blends the elements of the individual relationship, control of the firm, and ownerships that principally guarantee the business to continue under the family name. The succession plan is one

of the methods that can be deployed to maintain the ownership of the company under the control of the family, through preparing and transferring the company control to the family members as successors to fulfil the family interest. However, the inheritance law plays a significant role that allows the family to sustain control of the business, specifying the rights of family members in the deceased's estate even with the lack of a succession plan. The teachings of inheritance law explicitly indicate that only persons related by blood or family members will have rights in the deceased estate. In contrast, the family business might be dismantled if the family members that inherited shares have no intention to keep it and reject taking leadership of the company, which might end up with the shares being sold off to outsiders.

2.6 Summary

This chapter has provided a description of the socio-political, cultural and economic environment of Saudi Arabia, in which this study of family business will be conducted. Since Saudi Arabia is an Islamic country founded on the basis of *Shariah*, family businesses are influenced by Islamic law, national culture, and traditions, which play a vital role in business survival. According to the literature of business principles and ethics in Islam, the family business should be handled in an ethical manner. Accordingly, each Muslim should be ethically responsible in all his or her business practice and transactions. The next chapter explores the family business by reviewing the literature of the field.

CHAPTER THREE

Family Businesses: Literature Review

3 Family Businesses: Literature Review

3.1 Introduction

Businesses owned and controlled by families make up a high percentage of the private sector and employment in the Saudi Arabian economy as explained in the previous chapter. This chapter seeks to provide a deep understanding through the definition and discussion of family businesses from different viewpoints. This will be followed by an examination of the uniqueness of the family business. The role of the family will be explored and its involvement and impact on the business. This chapter will also discuss the value system of the family with relation to the family business. A selection of models will then be presented followed by a discussion of the family business ownership and control from several aspects, then followed by the conflict perception that is raised in a family business.

3.2 The Definition of a Family Business

Defining a family business is a complex matter, and it is difficult to establish agreement on any specific definition that can be deployed for the studies in the field (Handler, 1989; Westhead and Cowling, 1998; Chua et al., 1999; Astrachan et al., 2002; Miller et al., 2007; Holt et al., 2010). The Final Report of the European Commission Expert Panel on Family Business states that there are more than 90 definitions of a family business (EU Commission, 2009; Collins and O'Regan, 2011). However, all these definitions include a reference to the limits of their effectiveness as regards the characteristics of such businesses being internationally similar, due to cultural

differences in the way families work together (Astrachan et al., 2002; Poutziouris et al., 2006; EU Commission, 2009).

Furthermore, Astrachan, et al state that *“a definition of family is often missing’ and ‘this notable absence poses problems, particularly in an international context where families and cultures differ not only across geographical boundaries, but also over time”* (Poutziouris et al., 2006), (p.167).

Thus, experts within this field have not yet clearly identified criteria with which to precisely define the nature of a family business (Shanker and Astrachan, 1996; Littunen and Hyrsky, 2000; Astrachan and Shanker, 2003; Chrisman et al., 2004a). However, there is agreement that the correlation and interaction between the two specific elements of ‘family’ and ‘business’ is a distinctive element of family business (Gersick, 1997; Chua et al., 1999; Nordqvist and Melin, 2010; Collins and O'Regan, 2011; Yu et al., 2012). Nevertheless, the definition of ‘family business’ has some generally accepted criteria, which include the involvement of the family in the management and ownership, and generational transmission (Handler, 1989; Handler, 1994; Chua et al., 1999). However, family businesses do have the same legal forms as other companies operating in the economy (e.g. Limited Liability Company; Public Limited Company etc.). Therefore defining family businesses assists in distinguishing them from other forms of companies, as well as establishing the substantial differences between family and non-family firms (Gallo, 1995; Mcconaughey and Phillips, 1999; Berrone et al., 2012). Moreover, family businesses vary from non-family firms in various aspects, such as their forms of ownership and leadership, and the relationships between family members (Miller and Le Breton-Miller, 2005; Collins and O'Regan, 2011). To define the family business, Chua et al. (1999) classify definitions of the family business into operational and theoretical definitions.

3.2.1 The Operational Approach to Definition

Chrisman (2003b) proposes two approaches to define a family business (Chua et al., 1999; Chrisman et al., 2003b; Sharma, 2004). The operational or involvement approach emphasises the elements that define the family business, such as family involvement, ownership, management, the involvement of multiple generations, voting control and influence over strategic direction (Handler, 1989; Shanker and Astrachan, 1996; Westhead and Cowling, 1998; Astrachan et al., 2002; EU Commission, 2009; Collins and O'Regan, 2011). The European Commission suggests a definition based on that established by the Finnish Working Group on Family Entrepreneurship (set up by the Ministry of Trade and Industry of Finland in 2006), claiming that this is comprehensive and operational and widely accepted (EU Commission, 2009). The European Commission's definition is:

"A firm, of any size, is a family business, if:

- 1. The majority of decision-making rights is in the possession of the natural person(s) who established the firm, or in the possession of the natural person(s) who has/have acquired the share capital of the firm, or in the possession of their spouses, parents, child or children's direct heirs.*
- 2. The majority of decision-making rights are indirect or direct.*
- 3. At least one representative of the family or kin is formally involved in the governance of the firm.*
- 4. Listed companies meet the definition of family enterprise if the person who established or acquired the firm (share capital) or their families or descendants possess 25 per cent of the decision-making rights mandated by their share capital." (EU Commission, 2009 p.10)*

Moreover, Shanker and Astrachan (1996) outline three categories to define the family business; the broad, the middle and the narrow, each depending on amount of family involvement. The broad definition is where a few family members are involved; the middle definition is where there is some family involvement, and the narrow definition is where there are many family members involved (Shanker and Astrachan, 1996;

Astrachan et al., 2002; Astrachan and Keyt, 2003; Sharma, 2004; Poutziouris et al., 2006).

The broad definition refers to the need to keep effective control over strategic direction and the intention to keep the business within the family (Shanker and Astrachan, 1996; Astrachan et al., 2002). This definition indicates that only a few family members are involved in the business, but they retain influence over decision making by the power invested in them through ownership or through membership of the board of directors (Westhead and Cowling, 1998; Davis et al., 2000). Cromie (1995) adopts the broad definition cited by Westhead and Cowling (1998), as follows:

“A family business satisfies one or more of the following conditions: a) more than 50% of the shares are owned by one family: b) one family can exert considerable control over the business: f) a significant number of top managers are drawn from one family.” (Cromie, 1995, cited in Westhead and Cowling, 1998, p. 31)).

The middle definition refers to the presence of the founder and their children managing the company and having a legal control over voting rights (Shanker and Astrachan, 1996; Astrachan et al., 2002). This definition includes businesses where some family members are involved in managing daily activities, even if that consists of only one member (Shanker and Astrachan, 1996).

Finally, the narrow definition (Shanker and Astrachan, 1996; Westhead and Cowling, 1998; Chrisman et al., 2003b) includes the requirement of more than one generation being involved in the business, and also direct family involvement, both when it comes to ownership and to the managing of day-to-day activities (Shanker and Astrachan, 1996; Poza, 2013). Moreover, it requires two or more family members to take the responsibility for managing the company and influencing the company's decisions (Westhead and Cowling, 1998). The narrow definition prevents many companies from being included in the definition of a family business, as this requires a large number of

family members from different generations in different locations (Davis et al., 2000; Chrisman et al., 2003b; De Massis et al., 2014).

3.2.2 The Theoretical Approach Definition

Chua et al. (1999) claim that defining a family business by its components, such as family involvement, ownership, management, multiple generations, voting control, and influence over strategic direction, does not capture the essence of a family business. The definition should also take into account the company's intention and vision, which is the essence of a family business (Westhead and Cowling, 1998; Chua et al., 1999; Chrisman et al., 2003b). Moreover, the behaviour of the individuals managing and owning the firm distinguishes family from non-family businesses (Chua et al., 1999; Chrisman et al., 2003b; Sharma, 2004). Consequently, family members will serve the purpose for which the company was originally created by pursuing their vision of securing a better future for the family (Chua et al., 1999; Chrisman et al., 2003b; Zellweger et al., 2012). Chua (1999) argues that for the essential definition of family business to occur, all popular variations of family involvement must be present. This definition seizes the nature of the family business and includes all of the common differences of family involvement as components that make the essence possible (Chua et al., 1999).

Researchers taking the theoretical approach define the family business in terms of behaviour, thus:

“The family business is a business governed and/or managed with the intention to shape and pursue the vision of the business held by a dominant coalition controlled by members of the same family or a small number of families in a manner that is potentially sustainable across generations of the family or families.” (Chua et al., 1999, p.25).

In summary this section has discussed the definition of family business from the operational approach and the theoretical approach. There are elements from each approach that overlap but the intention of the leaders makes these different. From the literature reported above, the definition of the family business has several forms or approaches depending on the criteria used. However, the central concept is that the family members retain the ownership and control of the business, where they have the ultimate power of the decision-making; moreover, they plan to keep the business for the family in the future. For the scope of this study the definition derived from previous studies which will be used is as follows:

The family business is a form of a profit organisation established, owned and controlled by family member/members, where they recognise it as a family business, and they have the vision to keep it to serve the family interest, and they have the intention to transfer the business ownership and control to the next generation (Handler, 1989; Chua et al., 1999; Chua et al., 2003; Holt et al., 2010; Zellweger et al., 2012; Poza, 2013; De Massis et al., 2014).

The next section will give an overview of the uniqueness of the family business due to combining the two systems with each other: the family and the business.

3.3 Uniqueness of the Family Businesses

The family business is a unique form of business, being a combination of two distinct systems that have become mutually dependent as one system, with shared goals, values, vision, and culture (Burns, 2001; Sharma, 2004; Longenecker et al., 2006; Poutziouris et al., 2006; Carrigan and Buckley, 2008; Yu et al., 2012). According to Muske and Fitzgerald (2006) the family and business are supporting each other, and providing the

requirements needed for both of them. However, they will face the same issues and problems mutually, because they have converted to one system.

Chua et al. (2003) argue that a mutually supportive relationship between the family and the business is essential if the family business seeks continuity and to compete in the market. Moreover, family and business need to be managed in a balanced manner in order to avoid conflict (Chua et al., 2003). Moreover, Astrachan and Shanker (2003) claim that family businesses have intangible characteristics which make measuring their economic impact challenging (Astrachan and Shanker, 2003). They are perceived as key sources of industrial invention, essential providers of employment and economic growth, and a source of finance for entrepreneurs (Zahra, 2005). Moreover, family businesses play a vital role in improving the economies of local societies, and they have positive impacts on the development of national economies (Ibrahim et al., 2001; Zahra et al., 2004; Zahra and Sharma, 2004). However, regardless of their uniqueness and importance, Daily and Thompson (1994) claim that there are no substantial differences between family and non-family businesses from business aspects, for example, management and financial or employment aspects.

Nevertheless, McCrae et al. (2008) state that the values, visions, culture, intentions and missions of the founder and the manual of conduct in the company are transferred through generations. This definition shows the difference between a family business and non-family businesses. Family and non-family firms vary in their organisational environment and procedures (File and Prince, 1996). Moreover, Lyman (1991) suggests that management practices tend to be more relationship- than task-oriented in family businesses, and there is a recognised level of trust between management and employees. Non-family businesses also employ a greater number of informal policies rather than formal written policies.

This section has focused on the reason for the uniqueness of family business which will depend on the mutual relationship between the family and business system. The next section presents the family influence in the business, also, the role of the family members and family goals in relation to the business.

3.4 The Role of the Family in the Family Business

According to the definition of a family business, a family firm should be: 1) ruled/managed by the family; 2) the firm and the family should have an identical vision and share the same strategy of decision-making and 3) be sustained through several generations (Chua et al., 1999; Astrachan and Shanker, 2003; Sharma, 2004; Yu et al., 2012). The family has a variable impact on the business and this is displayed in many different ways within the business (Astrachan et al., 2002; Klein et al., 2005). According to Kepner (1991, p.448):

“The family is a social system endorsed by law and custom to take care of its members’ needs. The glue that holds it together through the vicissitudes of its lifecycle transitions and the intricate, complicated interpersonal linkages are the emotional bonding and affectionate ties that develop between and among its members, as well as a sense of responsibility and loyalty to the family as a’ system.”

The family has a substantial influence on the business (Dunn, 1999; Olson et al., 2003; Lumpkin et al., 2008). Moreover, it is an organisation with a recognisable structure that has shaped its members’ minds and which affects their ability to make strategic decisions in the family business (Leaptrott, 2005; Sharma and Manikutty, 2005; Shinnar et al., 2013). In this respect, Belardinelli (2002, p169) states that:

“A society that is concerned about autonomy, liberty, the spirit of enterprise, responsibility, or solidarity – which are all major constituents of a business culture – would be wise not to ignore the family, the place where we first begin to learn all of these virtues.”

In contrast with non-family firms, family members have strong links which enable them to freely manage and utilise their source of income (Lumpkin et al., 2008). Families are:

“Multifaceted interdependent systems of individuals who share resources and paradigms of tradition, loyalty, equality, and inclusiveness” (Lumpkin et al., 2008, p.134).

It is claimed that, in the definition of family business, the elements such as intention, involvement, and vision are essential to establishing a family business. Moreover, some scholars have explored the nature of intentions, that refer to the degree of family involvement, and whose dominant vision succeeds in the family and the business (Chua et al., 1999; Sharma and Manikutty, 2005; Lumpkin et al., 2008; Collins and O'Regan, 2011). It seems that to support the notion of having a family business for the family needs a long plan to ensure and achieve this strategic goal.

Strategic planning in the family business is linked to both the family and business, as has been stated above. It is necessary to consider the means by which senior management implement their authority and how they seek to succeed in their vision for the business (Chua et al., 1999; Lumpkin et al., 2008). Senior management's intentions, involvement, and values affect the management style and strategy of the family business. However, it is necessary to understand the importance of the involvement of family members in the business, including their values and intentions (Miller and Le Breton-Miller, 2005; Lumpkin et al., 2008). To manage business problems the reaction of both the founder and the owning family are vital in order to mutually solve these problems to ensure the success of the business (Lansberg and Astrachan, 1994; Olson et al., 2003; Moores, 2009; Basco, 2013). According to Moores (2009, p.177):

“Individuals in business families progress through identifiable stages that see them first learn business, then learn their family business, learn to lead their family business, and finally, learn to let go”.

Family members who have the experience and knowledge about their business and are part of it can lead their business to successes if they put the benefits of the business before their own. (Dyer, 2003; Meijaard and Uhlaner, 2004). Dunn (1999) states that:

“The central challenge sustaining a family enterprise is the management of the competing self-interests of individuals who occupy constituent positions somewhere in the ownership, family, and business subsystems. How each constituent ‘sees the world’ may be different as each may have different perspective on the same situation.” (Dunn, 1999 p.42)

Family involvement is considered a competitive advantage for the family business, because the family members share the same culture, values and objectives. Due to family ties, they trust each other, which leads them to share information securely (Tokarczyk et al., 2007; Craig et al., 2008; Eddleston et al., 2008a; Lichtenthaler and Muethel, 2012; Shinnar et al., 2013). Family members within the family hierarchy may have managerial positions, such as being on the board of directors (Pierce et al., 2001; Zahra, 2003).

The distinctive characteristics of family members and the degree of family involvement in the firm can have unique positive impacts on business (Zahra et al., 2004; Zahra, 2005; Shinnar et al., 2013). Specifically, the individual characteristics of the founder may be important elements in forecasting behaviour where family firms are reliant on a sole decision maker, and have a tendency to keep the control with the founder for longer (Feltham et al., 2005; Kellermanns et al., 2008). Furthermore, the involvement of new generations of the family members gives the firm competitive advantages in terms of change and innovation (Kepner, 1991; Gersick, 1997; Litz and Kleysen, 2001; Zellweger and Sieger, 2012).

Multiple generational interaction within the family business is a source of ideas generated from a diversity of individual viewpoints (Kepner, 1991; Kellermanns et al., 2008). Younger generations tend to create new approaches to the undertaking of tasks,

and they can often generate innovation (Kepner, 1991; Gersick, 1997; Litz and Kleysen, 2001; Kellermanns et al., 2008). As Salvato explains: “the founder alone may find it difficult to have innovative ideas without the fresh momentum added to the firm by second-generation members” (Salvato, 2004 p.73). It is acknowledged that the interrelation between family members delivers cross-generational sustainability and development for the family business.

Based on the above consideration, this study proposes to explore the essential role played by the founder in Saudi family business succession and continuity. Moreover, the study will investigate the influence of the relationship between the founder, next generation, and the family members in the Saudi family business. The next section examines the role of family traditions, values, and culture in relation to the family business.

3.4.1 Family Orientation and Family Involvement

Studies have shown that ‘Family orientation’ explains the concepts behind the definition of family business (such as intention, family involvement, and vision) by illustrating the effects of the insights of family members when it comes to progression and results (Dunn, 1999; Kellermanns et al., 2008; Lumpkin et al., 2008). Family orientation is derived from the family’s environment, which influences member’s perceptions, communication and values, which, in turn, rely on the family’s emotional structure (Chrisman et al., 2003a; Habbershon et al., 2003; Friedman and Antal, 2005). Moreover, the relationships between the individuals within a family are described as interdependent, long-term, and emotionally strong (Hall, 1996).

According to Lumpkin et al. (2008), family involvement is the principle of family orientation. In addition, he argues that family orientation consists of five dimensions,

tradition, stability, loyalty, trust, and interdependency. Moreover, studying family orientation leads to an understanding of the effects of elements such as intentions, values, and family member involvement. These elements are fundamental to a family business in relation to family business culture and also conflict (Dunn, 1999; Habbershon et al., 2003; Klein et al., 2005; Lumpkin et al., 2008). The rest of the section will deal with the five dimensions as outlined above.

Tradition is an essential component of family orientation. Within the environment of family structures, tradition takes into account the mutual history and means of communication between family members (Reiss and Oliveri, 1991; Dunn, 1999; Lumpkin et al., 2008). Traditions tend to continue over time and assist in maintaining family beliefs, a distinctive family culture, ethnicity, and religious beliefs, as well as traditions passed down from generation to generation through the repeating of mutual family past and the acknowledgment of family achievements (Reiss and Oliveri, 1991; Habbershon et al., 2003; Kellermanns et al., 2008; Lumpkin et al., 2008). Family environments and the means of communication are significant in sustaining family relationships by developing emotional ties. However, at the same time, tradition has the potential to lead to family conflict (Leach and Braithwaite, 1996). Individuals with low family orientation may encounter traditions that support family harmony, while individuals with a strong family orientation care about emotional ties and so are willing to avoid any conflict that could affect family relationship (Davis, 1983).

Stability is a feeling of continuity provided by the family to its members, appearing in day-to-day activities alongside the communication patterns between family members (Reiss, 1981; Lumpkin et al., 2008). The family is a stabilising emotional system, especially when disaster or change threatens this stability (i.e. by unusual individual activities, or changes in the family situation) and the family is required to develop new

approaches to solve new problems, to maintain family balance and achieve continuity with new situations (Reiss and Oliveri, 1991; Friedman and Antal, 2005).

Loyalty refers to the obligation and responsibility of individual members. Within the family, loyalty is an ethic experienced by family members, who are all expected to maintain family loyalty (Nordqvist, 2005; Lumpkin et al., 2008). Thus individuals with solid family orientation may understand loyalty as a family obligation, while individuals with low family orientation may feel no responsibility to be loyal, even though loyalty is expected from all family members (Davis, 1983).

Trust between family members reveals a readiness to achieve expectations. It refers to safety, security, trustworthiness, and fairness, developed by family members in order to help and maintain confidence in each other (Fowers and Wenger, 1997; Lumpkin et al., 2008). Trust ruled by values of fairness and justice is a positive aspect of the family system when investments and rights within the relationship are balanced and fair (Reiss, 1981). Individuals with a strong family orientation who trust the family system expect it to give them security. Family members anticipate fair and even-handed behaviour from their parents. A lack of such trust influences the company climate, affecting job satisfaction, motivation, and performance (Lubatkin et al., 2005).

Interdependency refers to the fact that family members are mutually supportive and interdependent to an extent uncommon in individuals within other social structures. Moreover, this interdependency is based on solidity, familiarity, and emotional bonds developed through the emotional interdependency of the family (Olson et al., 2003; Lumpkin et al., 2008; Shinnar et al., 2013). In addition, family members share love, inspiration, support, and become interdependent when sharing attitudes to conflict and control (Davis, 1983).

3.4.2 The Family Value System and Family Businesses

The family unit has an important and essential value system that is shared across generations. Moreover, the value system includes both individual and combined values that the family requires to be maintained across generations (Lumpkin et al., 2008; Duh and Belak, 2009). This collective value scheme is spread through “*myths, stories, and rules*” and is clear “*in family’s traditions, rituals, and its relational laws*” (Lumpkin et al. 2008, 130).

The shared value system and principles derived from family history, traditions, mutual remembrances and stories of family achievements of the previous generations is crucial to generating wealth across generations, and to determine the vision and goals that are compatible with family and business values (Koiranen, 2002; Duh and Belak, 2009; Tàpies and Moya, 2012).

Koiranen (2002) defines business values and family values as:

“Explicit or implicit conceptions of the desirable in business. As shared beliefs, these desired end-states underlie the attitudinal and behavioural processes of those involved in business.

Family values are explicit or implicit conceptions of the desirable in family life. As shared beliefs, these desired end-states underlie the attitudinal and behavioural processes of family members.” (ibid., p.177)

Aronoff and Ward (2000, cited by Koiranen, 2002, p. 117), define family business values as:

“Explicit or implicit conceptions of the desirable in both family and business life. Given that there are often conflicts of interest between the two realms (business and family goals), family business values should be defined and shared so that they create a common ground for a durable value system that benefits both realms.”

According to Hubler (2009, p. 255):

“The manifestation of the soul in family business comes as a result of the emergence and discussion of family values. Such values are those that the

family wants to see perpetuated in the company; they become the rich source of family creativity, family ethics, and the family's moral point of view.”

Additionally, shaped and shared family business values increase communication between individuals. This can reduce possible conflicts between the family and business systems and encourage trust and responsibility, because the family business now benefits from the mutual values that are derived and agreed from the family and business values (Belardinelli, 2002; Koiranen, 2002; Sharma and Manikuttu, 2005).

To conclude that as discussed above, the family orientation consists of five dimensions: tradition, stability, loyalty, trust, and interdependency. However, it also has an important role in shaping the relationship between the family members in relation to family business success. Moreover, the family business is produced from two subsystems, the family and the business, which are influenced by family members' values and traditions. This study proposes to explore the impacts of the family values and traditions of family members on family business continuity.

The next section will introduce a number of family business models.

3.5 Family Business Models

A number of scholars have suggested some models of the family business. This section will explain some of these models. However, the two main dominant systems presented in this models are the family and business (Tagiuri and Davis, 1996; Gersick, 1997; Fahed-Sreih, 2008).

3.5.1 The Three Circle Model of Family Business

Tagiuri and Davis (1982) developed a model that shows the several interactions that arise in family businesses, containing three unified notions, specifically business,

ownership, and family, as three subsystems that integrate over time, which they named the Three-Circle model (Tagiuri and Davis, 1996). The family company has several unique, essential attributes, and each of these main attributes is a source of both benefits and disadvantages for owning families, non-family employees, and family employees (Tagiuri and Davis, 1996; Olson et al., 2003). Moreover, the model shows that, the individual might be positioned in any of seven sub-sections regarding their relation to the family business (as shown in Figure 1) (Tagiuri and Davis, 1996; Gersick, 1997). The seven sub sections are: an individual might be an owner only, a manager only, a family member only, or some mixture of the three dimensions (Fahed-Sreih, 2008). This model shows how difficult life can be in a family business or business-owning family, where, within the family business system, the different members involved have different opinions about managing the business (Aronoff, 1999; Jaffe and Lane, 2004).

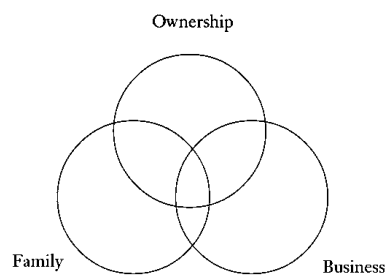


Figure 1 The three circle model of family business

Source (Gersick, 1997)

The family business is described in the three-circle model as having three distinct inseparable subsystems which are the ownership subsystem, the business subsystem, and the family subsystem. Each of these subsystems influence and are reliant on each other. However, the individuals within each subsystem have their own specific objectives and specific strategies to achieve them (Gersick, 1997; Gersick et al., 1999; Poza et al., 2004).

3.5.2 The Developmental Family Business Model

The developmental model of Gersick et al. (1999) includes the origins of the three-circle model of the family business, in which each of the three subsystems transforms over a sequence of stages over time as shown in Figure 2 (Gersick et al., 1997). This model provides an inclusive and cohesive framework to represent the interaction between the life cycle of the family business, the family, and ownership. The model comprises three dimensions: family development, ownership development and business development (Gersick et al., 1999). Family development includes several stages extending from the family's early beginnings to a next generation entering the family business. In the next stage the family business contains two generations of the family working together. The third stage of the family development is the time when the founder retires and passes the business to the next generation (Gersick et al., 1999; Van Buuren, 2007).

The ownership development begins as controller ownership, when the owner controls the entire business, and controls all decisions. It then progresses to a stage where siblings enter the business and share decision making with the founder (sibling partnership) (Gersick et al., 1999). In the final phase, the extended family members and/or outside managers are introduced into the management of the firm, and decision making effectively becomes a shared phenomenon between family and non-direct family members (cousin consortium) (Gersick et al., 1999). The business development dimension also comprises three stages namely, start-up, expansion and maturity, which includes elements of a decline phase (Gersick et al., 1999).

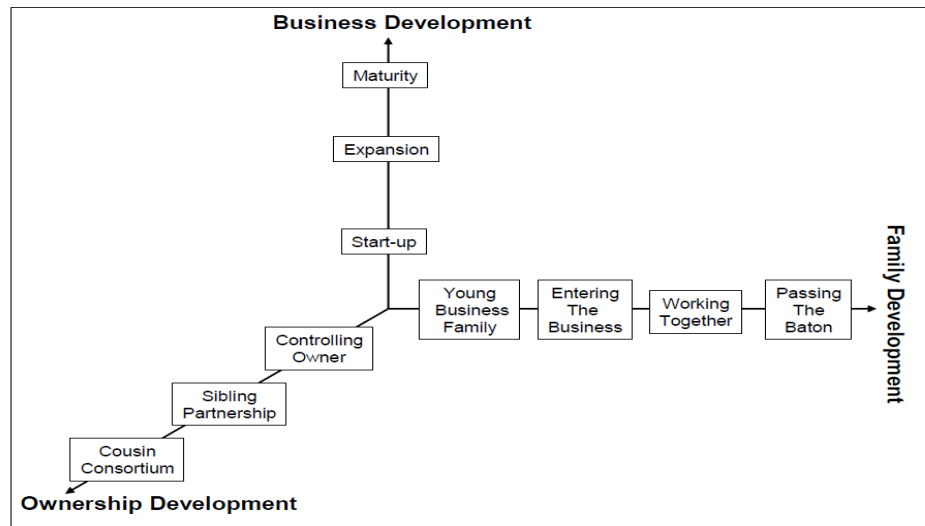


Figure 2 The developmental family business model

Source (Gersick et al., 1999)

3.5.3 The Sustainable Family Business Model (SFB)

Stafford et al. (1999) presented the sustainable family business model (SFB), as shown in Figure 3, which contains two components. The model recognises a family side and a business side in the family firm, and the interaction between the two sides is important to the continued existence of the family firm. Therefore, sustainability is a function of business success and family functionality (Stafford et al., 1999). Moreover, the family side is often considered to be full of emotion and perhaps detrimental to the business (Stafford et al., 1999; Olson et al., 2003).

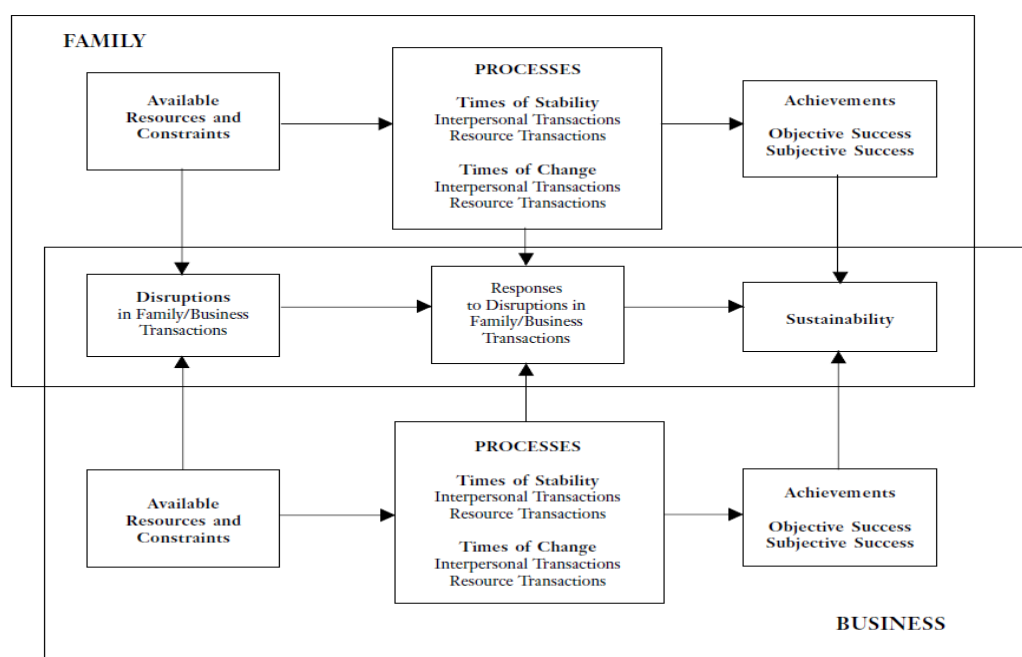


Figure 3 The Sustainable Family Business Model (SFB)

Source: (Stafford et al., 1999)

The sustainable family business model refers to the interaction between the family and the business and assists the combination between family and business (Stafford et al., 1999). It proposes that, the family business is better understood when viewed as mutual entity rather than a single one, family and/ or business (Stafford et al., 1999). The model assumes that family and business in a family business context are melded to some degree and these two parties can only be separated only in special cases (Olson et al., 2003). Moreover, the model views the family business as trying to achieve continuity when disruptions occur, either within the business or outside (Stafford et al., 1999). The model is also likely to determine the extent to which the family and the business respond to the change and how those responses affect the sustainability of the family and the business (Stafford et al., 1999). The model shows that both the family and business systems are critical to the understanding of family businesses (Habbershon et al., 2003). The model proposes that the family, when joined with the business is the source of the

uniqueness of family businesses, not the business itself (Stafford et al., 1999; Olson et al., 2003).

Stafford et al. (1999) recognise that the survival of the family business requires professional management. However, the family has its own interests and goals, which are not acceptable to sacrifice for the sake of the business. Moreover, the success of a family business comes in managing this overlap. This reciprocal impact of the family and the business distinguishes family business studies from all others (Sharma, 2004), where the family and the business need to respond to the mutual problems together to achieve continuity. As explained in section 2.6, the culture, beliefs, values, and traditions have an impact on and influence the Saudi family business through, which the family and business are attached and influenced each other.

3.6 The Family Business Ownership

Ownership is one of the main elements in the definition of family business. The key determinate of the family business is ownership that is retained by the family members (EU Commission, 2009; Astrachan, 2010). The interaction between the management and the ownership in the family business creates a competitive advantage for the family and the business, but may also cause substantial weaknesses, for example, at the time of succession between generations, which can lead to conflicts (Schulze et al., 2003).

The ownership in family business, where the power and control is frequently retained by the family who own the business, is more distinct, in contrast to a non-family business (Tagiuri and Davis, 1996; Gersick, 1997; Koiranen and Karlsson, 2003). This ownership can take different forms e.g. entire ownership, controlling ownership or effective control (Chua et al., 1999; Chrisman et al., 2003b). Ward and Dolan (1998) argue that: *“Effective Control [is] when the parent or parents own 50% or more, they*

are considered in control”, while in a family business 30% or more shares retained by the family is considered effective control (Ward and Dolan, 1998).

Ownership refers to the relation between the individuals and the objects that are owned. There are different ways in which to define ownership, but frequently it is defined from a legal or economic perspective (Grunebaum, 1987; Pierce et al., 2003). In addition, the means of constructing and distributing the ownership can influence business strategy and decision making (Koiranen and Karlsson, 2003; Westhead and Howorth, 2006).

Legal ownership and property rights are defined as follows:

“Ownership: The total body of rights to use and enjoy a property, to pass it on to someone else as an inheritance, or to convey it by sale. Ownership implies the right to possess property, regardless of whether or not the owner personally makes constructive use of it.” Webster’s New World Law Dictionary (2006).

Legal ownership refers to the special rights and control over an asset, as identified by the legal system and also secured by law (Pierce et al., 2003). Various actions such as inheritance, selling and buying of assets, gifts, and succession (specifically in a family business) can affect legal ownership (Hoopes and Miller, 2006).

As explained above the ownership in a family business may take many forms. It may start with a single owner which then becomes a sibling partnership in the next generation, then in a subsequent generation become a cousin partnership (Gersick, 1997). The business environment is changeable and the owning family have a critical role in the complex tasks of monitoring and managing business investment and individuals. In terms of the continuity of the family business, the process of the handover of ownership is generally the most significant and challenging task (Jaffe and Lane, 2004; Brundin et al., 2008). Conversely, family business ownership is a sequential procedure, involving a variety of rational decisions regarding control and responsibilities of the business and the family, in which the ownership in a family

business is a dynamic and continuing commitment to the family, business, and the community (Koiranen and Karlsson, 2003; Pierce et al., 2003; Jaffe and Lane, 2004; Hoopes and Miller, 2006).

Moreover, in the family business effective ownership can contain important elements, such as shared values between the members, quality relationships between different generations, developing knowledge and skills, family and business strategy, informal meetings, and launching formal family governing bodies (Ward, 2001; Jaffe and Lane, 2004). Furthermore, effective ownership can lead to a better financial performance, superior corporate responsibility, and general economic growth (Hoopes and Miller, 2006). The founder generation in the family business can maintain a substantial level of power and ownership until late in life, which can lead to a lengthy and challenging procedure of transferring power to the next generation (Ikävalko and Pihkala, 2005).

The ownership of the family business can develop through six phases from the time of the founder launching the business. These are 1) entrepreneurship, 2) owner-manager, 3) family partnership, 4) sibling partnership, 5) cousins' collaboration, and 6) family consortium (Gersick, 1997; Ward, 2001). However, the family firm may not necessarily go through each phase sequentially but may avoid or return to previous phases, due to the choices by the business' ownership (Ward, 2001).

Moreover, ownership has its roles and duties, and is a challenging task facing family shareholders and business owners, where they need to take care to balance the interests of family members working in the business with those who own it (Kepner, 1991; Ward, 2001; Lumpkin et al., 2008; Basco, 2013). However, particular difficulties face the family and the business when younger generations aspire to put their own stamp on the business (Ward, 2001; Schwass, 2008). The next section will consider the concentration of control in a family business, which is related to the ownership and power.

3.7 Concentration of Control in Family Businesses

Concentration of control refers to the authority and level of power held by family members due to their ownership, as discussed in the previous section (Gersick, 1997; Eddleston and Kellermanns, 2007). However, the level of control is dependent on the number of owners involved in the firm's decision-making. The more limited the number of members involved the higher degree of control they possess, while greater numbers lead to less control (Gersick, 1997).

The dominant coalition refers to family members who have a mutual vision participating in developing and controlling the business. These are frequently the founder or the controlling owner from a later generation (Chua et al., 1999; Sharma, 2004). Family members who have a high level of concentrated control express their leadership and authority by influencing strategic decision making, and can slow down functional decision making (Harvey and Evans, 1994; Eddleston et al., 2008b).

The family member who controls the business understands the wide range of benefits that he/she has, such as the monetary benefits, influence over business strategy and decision-making, as well as the ability to exercise power (Schulze et al., 2003). However, controlling owners often tend to be authoritarian, displaying a low level of trust and lack of planning, along with limited managerial tactics (Dyer and Handler, 1994; Athanassiou et al., 2002). Moreover, these owners often have a leadership position within their families (Tagiuri and Davis, 1992). which provides them with more power than other members when it comes to company goals and the decision-making process (Tagiuri and Davis, 1992; Kellermanns and Eddleston, 2004).

Founders usually start their business by establishing norms, attitudes, and values which protect their decision making from interference during the time they manage the company (De Vries, 1993; De Dreu and Van Vianen, 2001). Generally there is a lack

of a participatory environment in the family business, with a high concentration of control (Kellermanns and Eddleston, 2004). Thus, because of the dominance of the decision-maker, the occurrence of disputes or conflict during decisions is significantly low (Chrisman et al., 2007). Moreover, family members cannot provide new ideas to the controlling owner; on the contrary, the owner can refuse to listen (Walsh and Fahey, 1986). For this reason, the greater the concentration of control, the fewer conflicts there are between family members concerning planning and procedures (Gersick, 1997).

In contrast, in family businesses where control is broadly spread, there is a low level of concentration control, which can lead to wider involvement of family members in decision-making (Ruekert and Walker, 1987; De Massis et al., 2015). However, involvement by family members leads to a greater variety of viewpoints, which can then lead to increased potential for conflict (Guth and Macmillan, 1986; Amason, 1996; Pelled, 1996; Campopiano et al., 2014). Therefore no dominant coalition can completely control the decision making process and greater diffusion of control can lead to more conflict (Davis and Harveston, 2001; Eddleston and Kellermanns, 2007). Decision-making is an important process in business. However, it might take longer, because more individuals are in control, and each of them believes that his/her control gives him/her power over the decision-making. Moreover, family business decision-making processes might be negatively affected by family disagreements, due to the fact that many individuals are in control (Gersick, 1997; Dooley et al., 2000; Kidwell et al., 2012).

Higher levels of control concentration due to the level of authority and power held by individuals can cause more conflict in relationships in family businesses because they can use this power negatively (Eisenhardt and Bourgeois III, 1988; De Dreu and Van Kleef, 2004). According to Eisenhardt and Bourgeois (1988) higher levels of control by

the owner/founder might generate problems. They also propose that a high concentration of control leads to frustration and has destructive effects, which are usually related to conflicts within relationships (Eisenhardt and Bourgeois III, 1988; Adams et al., 2005).

Moreover, older family members with high levels of control may be unwilling to give a chance to the next generation to participate in the decision-making process, and can feel they are ignored and disaffected (Eisenhardt and Bourgeois III, 1988; Lansberg, 1988; Kellermanns and Eddleston, 2004). This is due to the fact that decisions are naturally made by senior levels and passed down to lower levels in businesses with high control concentration (Love et al., 2002). Moreover, family members with limited or no control over the processes of a business develop additional irritation or resentment, particularly if decisions are considered as unwanted or unjustifiable (Johnson et al., 2000). The higher the level of a family member's dependency on the business, the stronger the destructive effect that develops when they are faced with unwanted results. This is due to the fact that they face a high price for withdrawing, and there are often few similar jobs for them to go to (Johnson et al., 2000; Chrisman et al., 2012). The family member could also lose knowledge, experience, potential rights of inheritance, position, and other benefits linked with work in the family business (Schulze et al., 2001; Schulze et al., 2003). Furthermore, the high level of control raises the probability of conflict in relationships (Schulze et al., 2001).

This section was focused on the business control concentration and the authority that is held by the founder and the decision making in the company and how the level of control could affect the relationship between other members in the family and the business at the same time. The next section will discuss the conflict perception in a family business especially its relation to the power and decision making process.

3.8 Conflict Perception in Family Businesses

Family businesses experience considerable conflict, in contrast to businesses that have other authority structures, because the interaction of the family and the business leads to a higher level of disagreement. (Lee and Rogoff, 1996; Sorenson, 1999; Eddleston and Kellermanns, 2007). Family businesses contain psychodynamic impacts between members (e.g. sibling competition; children's aspiration to distinguish themselves from their parents; marital conflict and ownership distribution among family members) in which the personal relationship is the general root of conflict (Dyer and Handler, 1994; Schulze et al., 2001; Dyer, 2003; Lubatkin et al., 2005; Eddleston and Kellermanns, 2007). Moreover, when the next generation is involved and the ownership is distributed, the interaction between family members will be more complex and is likely to lead to personal conflict (Dyer and Handler, 1994; Sorenson, 1999; Schulze et al., 2001; Dyer, 2003; Eddleston and Kellermanns, 2007; De Massis et al., 2015).

Generally, family business research studies tend to adopt the position that conflict is harmful and troublesome. However, conflict can have a constructive outcome on the performance of a family business (Kellermanns and Eddleston, 2004; Kellermanns et al., 2008; Berrone et al., 2012). There are two means of understanding the results of conflict on performance: firstly, that conflict is destructive and could damage family synergy (Wall et al., 1987; Wall and Callister, 1995; Pieper et al., 2013). Secondly, that conflict can be constructive when it comes to the businesses' performance by increasing options, and the participation of and inspiration from family firm members (Tjosvold, 1991; Tekleab et al., 2009).

There are three kinds of conflict: task conflict, process conflict and relationship conflict. However, any one of these conflicts can arise in fluctuating degrees of frequency and intensity, where both are strongly associated. The more intense the conflict, the more

frequently it may be happened (De Dreu and Van Vianen, 2001; Jehn and Mannix, 2001; De Dreu and Weingart, 2003).

Task conflict can develop an understanding of the achievement of responsibilities and increase the chance of sharing different perceptions (Jehn and Mannix, 2001; Kellermanns and Eddleston, 2004). Moreover, task conflict emphasises the importance of setting strategic goals and objectives of the business, and improving the quality of decision-making during negotiations (Amason, 1996; Rahim, 2010). Non-family businesses work to keep task conflict at moderate levels and it is consequently accounted as advantageous to the performance of the senior management (Kellermanns and Eddleston, 2004). Task conflict leads to the business being unable to complete tasks and accomplish goals if it is at a high level. In contrast, low levels of task conflict lead to rigid strategies and reduce development (Amason, 1996; Jehn and Mannix, 2001; Kellermanns and Eddleston, 2004; Tekleab et al., 2009). Moderate levels of task conflict in a family business are vital for the benefit of the family and business (Tagiuri and Davis, 1992; McCann III et al., 2001).

Family businesses tend to adopt previously successful strategies, particularly as many of them lack strategic planning, which can have an effect on the growth and continuity of the business. (Ward, 2011). Furthermore, business growth and performance can be negatively affected, due to the fact that frequently the founder does not share business information with others, which leads to knowledge and experience from other members not being utilised (Kellermanns and Eddleston, 2004). In contrast, the founder of the family business who shares business information continually with employees and inspires contributions to develop the business strategic goals and objectives also encourages family members and employees to align their goals with those of the business, and in this way leads to higher performance levels and faster growth (Upton

et al., 2001; Eddleston and Kellermanns, 2007). Encouraging a moderate level of task conflict in family businesses leads to improvement of the quality of decisions and strategies, and increases the commitment of family members to work, through improving discussions and conversations that result in a focus on problems to be solved (Kellermanns and Eddleston, 2004; Ward, 2011). Thus, family businesses with extremely high levels of task conflict might lose the chance to improve their strategies. In contrast, family business with no task conflict may struggle to adopt the correct strategy at the appropriate time (Johnson et al., 2000; Chrisman et al., 2012).

Process conflict is concerned with how to complete work and frequently deals with the amount of responsibility gained by members (Jehn and Mannix, 2001). While it is expected that, in the main, low to moderate levels of process conflict will improve performance, high levels of process conflict can be destructive to performance (Jehn and Mannix, 2001; Tjosvold, 2008). Process conflict can be principally important for family business due to the fact that family businesses need to employ the talents and skills of family members in an effective manner, sharing with them important information concerning the business (McCann III et al., 2001; Shepherd and Haynie, 2009). If the process conflict is at a low level, family businesses face difficulties when it comes to sufficiently regulating the responsibilities of family members and the businesses' resources, whereas those with high levels of process conflict can struggle with role uncertainty, opposition, and vagueness (Jehn and Mannix, 2001). Furthermore, moderate levels of process conflict are essential in family businesses, as this leads them to innovate, and increase the productivity of processes, and sharing and transferring knowledge about this process (Davenport and Prusak, 2001; Kellermanns et al., 2012). Moreover, without process conflict, family businesses cannot improve their procedures, which is a common issue in family businesses (Handler, 1994).

Conversely, extreme process conflict can prevent family members from completing their work and obstruct their capability to complete certain activities that are important to the competitiveness of their family businesses (Cabrera-Suárez et al., 2001; Block, 2012).

Although task and process conflict are potentially advantageous, relationship conflict typically generates multiple problems (Amason, 1996; Jehn and Mannix, 2001). Relationship conflict is the awareness of individual animosities and inconsistency (Simons and Peterson, 2000). It could be hidden or explicit in nature. When hidden relationship conflict finally surfaces, the impacts tend to be mainly destructive (De Dreu and Van Vianen, 2001; De Dreu and Van Kleef, 2004). Irritation, frustration, annoyance, etc. are the main components of relationship conflict. Negative feelings throughout, and after conflict involve anger, resentment, and anxiety (Johnson et al., 2000; Jehn and Mannix, 2001). Relationship conflict frequently has impacts on work by transferring productive energy to decreasing relation pressures and relational politics (Jehn and Mannix, 2001; Miller et al., 2013).

Harvey and Evans (1994) state that, in family firms, relationship conflict can arise from: *“the dominant presence of the family setting the rules and having ultimate power, the lack of formalised systems and structures to deal with conflict, and having no formal organisational structure or operative systems and the co-mingling of business and family roles.”* (Harvey and Evans, 1994 p. 345).

Moreover, relationship conflict comes from other sources, such as misaligned interests between the business and the family itself, conflicts concerning fairness and issues surrounding succession. Consequently, family businesses are susceptible to the harmful consequences of relationship conflict because of the presence of the family and the business within family business (Danes et al., 1999; Wayne et al., 2013). In addition,

relationship conflict can lead to negative outcomes such as lack of trust, antipathy and anger. Hence it reduces goodwill and shared understanding between members (Kellermanns and Eddleston, 2004). Therefore, while task and process conflict can improve the quality of decision-making, relationship conflict has a destructive influence (Jehn and Mannix, 2001). Furthermore, relationship conflict can adversely affect a family business performance, as it is linked with animosity, tension, nervousness, unreceptive behaviour, and the awareness that others have hostile or threatening attitudes (Simons and Peterson, 2000; San Martin-Reyna and Duran-Encalada, 2012). However, as long as the founder remains in a leading role, the family business will provide a desirable environment for the individual members (Athanassiou et al., 2002). From the previous literature, this study proposes there are a number of aspects and factors might be correlated with success or failure to the family business in Saudi Arabia, and the research aims to identify these factors.

3.9 Summary

This chapter has discussed the definition of family business from the operational approach and the theoretical approach. There are elements from each approach that overlap but the intention of leaders makes these different. The chapter has also provided an overview of the uniqueness of the family business, due to the combining of two systems with each other, the family and the business and discussed a number of family business models.

Moreover, the chapter focused on the reason for the uniqueness of the family business, which relates to the mutual relationship between the family and business system, which at some point share the same goals, values and culture which enables them to convert to one system of family business. The chapter has also discussed the family influence

in the business and the role of the family members and family goals in relation to the business, as well as the interaction between management and ownership in the family business, which creates a competitive advantage for the family and the business.

The family business founders usually start their business by establishing norms, attitudes and values which protect their decision making from interference during the time they manage the company. The chapter has explored the founder's role and influence in the business.

Finally, the chapter takes in consideration family conflicts. Family businesses experience considerable conflict, because the interaction of the family and the business leads to a higher level of disagreement.

The study will explore the founder's role and influence in Saudi family businesses, and the importance of family values and traditions to family business continuity in Saudi Arabia in relation to Saudi culture. In addition, the study will attempt to discover the factors that influence family business continuity. The next chapter of this study focuses on the family business succession aspects.

CHAPTER FOUR

Succession Planning

4 Succession Planning: Literature Review

4.1 Introduction

This chapter researches the influential aspects that affect family business continuity and specifically family business succession. (Handler, 1994; Murray, 2004; Elamin and Alomaim, 2011). Succession planning has substantial importance within family businesses as it affects company continuity and transition of ownership and leadership from generation to generation (Miller et al., 2003; Bigliardi and Dormio, 2009; Mitchell et al., 2009; Howorth et al., 2010; Gilding et al., 2013). Due to high percentage of failures that are recorded in family business management succession, this aspect of the family business has become an important element in family business literature (Handler, 1989; Handler, 1994; Bigliardi and Dormio, 2009; Elamin and Alomaim, 2011).

This chapter focuses on the definition of succession in family businesses and the importance of succession planning for business continuity for future generations. It reviews the debate about the concept of the succession process being either a single event, or an on-going process. The chapter will then review the ideas and characteristics of a number of succession models that are concerned with the transfer of leadership from a first generation to a next generation. Then there will be a review and discussion on the factors that affect the success or failure of succession. The role of the founder will be emphasised to a greater degree as well as the importance of next generation preparation plans and their role in a succession process.

4.2 Succession Background

This section will explain the reasons for the importance of the succession planning and then introduce its definition, based on the literature.

4.2.1 Importance of Succession in Family Business

Succession is considered as one of the ultimate challenges facing family businesses. If a business is profitable and is in a good condition, next generational continuity becomes a common interest between the founding generation and the next one, attracting the next generation to take the responsibility to lead the family business in the future (Sharma et al., 2012a).

According to Sharma (2003), the main concern of founders of family businesses should be the transfer of the company leadership (Sharma et al., 2003; Blumentritt et al., 2013). Based on surveys in the U.S.A. it was found that 30% of family businesses were transferred to the next generation, 10% covered three generations whilst only 4-6% continued to a fourth generation (Filser et al., 2013).

Many family business leaders consider succession planning because failure to do so has a negative effect on the development of the business, or even threatens its survival. Miller (2003) claims that the issue of the succession problem arises mainly because the first generation founders are not willing and do not have the ability to develop a succession plan for a next generation (Miller et al., 2003; Westhead, 2003; Royer et al., 2008). Moreover, leaders of family businesses may not consider succession as a decision making task, which can negatively affect the development of the business, or even risk business survival (Bachkaniwala et al., 2001). However, the concern is very often about the unwillingness and inability of the founders to plan and start

intergenerational succession planning within their lifetime (Poutziouris, 2001; Janjuha-Jivraj and Woods, 2002; Motwani et al., 2006).

The significance of succession and business transfer is justified by the statistics, as, according to a study completed by Barclays Bank (2002), 61% of the family business leaders did not know what their businesses' future would be, and only 16% of them were ready for the transfer (Westhead, 2003). According to the estimations of the European Commission (2003) third of European family business would face the challenge of succession within the succeeding 10 years. That would involve the transfer of an estimated 610,000 small and medium sized businesses, supplying around 2.4 million jobs (Westhead, 2003). Given the importance of the issue of succession in family businesses, the next section will focus on finding a succession definition.

4.2.2 Definition of Succession Planning

Family business is distinctive in the extent to which succession planning is a main and strategic event of the firm's continuity, but constructing a successful business needs a massive amount of energy, capacity, and hard work (Ward, 2004; Aleem and Islam, 2009). Furthermore, De Massis, Chua and Chrisman (2008) propose that, in non-family businesses, succession is related to change in leadership, whereas in a family business, succession denotes the handover of leadership from a family member to another family member. Generally, the succession can be defined from two points of view. The first one is that succession occurs at the same time that the founder transfers leadership and ownership to the heir automatically without prior planning; that is a 'passing the baton' view (Sharma et al., 2001; Elamin and Alomaim, 2011). Beckhard and Burke (1983 cited in Handler, 1994) defined family business succession as: "*The passing of the*

leadership baton from the founder-owner to a successor who will either be a family member or a non-family member; that is, a 'professional manager' (p.3).

The second view is that succession is a process, which has several stages and requires time and preparation, and starts from the early stages of the life of the family business (Handler, 1990; Handler, 1994; Tatoglu et al., 2008; Gilding et al., 2013). The succession plan includes the actions, events, and developments that affect the transfer of managerial control from one family member to another (Sharma et al., 2001; Tatoglu et al., 2008). Sharma, et al. (2003, p.25) define succession planning as “*the deliberate and formal process that facilitates the transfer of management control from one family member to another*”. However, they also argue that because of the uniqueness of family businesses and the complexity of the succession process, it is improbable that a single model of family business succession can be applied for all family businesses (Sharma et al., 2003). Similarly, Nawrocki et al. (2005) argue that succession is not a single event, but a process that requires planning and a sequence of strategies executed over time to avoid unexpected problems. Moreover, succession has a series of recognisable phases that take place over time, with the prospect of the willingness of the inheritor to take over the challenging task of leadership when required (Venter et al., 2005).

Succession is also defined as a process that involves the transmission of both ownership and management between generations (Lansberg and Astrachan, 1994; Gersick et al., 1999). As many scholars have suggested that the succession process is more of a planned event rather than a sudden event, they have developed different succession models; the next section will introduce a selection from these models.

4.2.3 Succession Process

As shown above, many researchers have agreed that succession is more of a process rather than a single event. It is a multistage and an energetic process that starts even before the successors enter the business (Handler, 1989; Churchill and Hatten, 1997; Murray, 2004; Mazzola et al., 2008; Sharma et al., 2012a). Furthermore, an appropriate succession planning process delivers the family business the chance to choose effective leaders who are talented to lead the business to a new level in the future (Mazzola et al., 2008; Aleem and Islam, 2009). However, the effectiveness of succession is not limited to selecting a successor, but is also influenced by the individual nature of the founder and inheritor, family members, and organisational factors (Ibrahim et al., 2001; Sharma et al., 2001; Motwani et al., 2006). To secure the continuity of a family business there is a vital need for formal succession and a long-term plan (Handler, 1994; Ward and Dolan, 1998; Aronoff, 1999; De Massis et al., 2008).

Grote (2003) claims that the risk of family business failure is affected by human behaviour. The founder who resists change could be responsible for the lack of succession planning in the family business (Kelly et al., 2000; Grote, 2003; Westhead, 2003). Furthermore, many founders are hesitant to authorise their descendants in the family business, in anxiety over losing control over the business, which eventually makes the succession planning difficult (Lansberg, 1999). Nevertheless, Handler (1990) suggests that there are other factors that should be taken into account because they can affect succession planning. For example, leadership style, delegation of authority, organisational culture, the founder's health and the role of training and preparation of a next generation can all affect the process of succession planning (Grote, 2003). Planning the succession process is indispensable for the transference of ownership and leadership

in any family and non-family business (Sharma et al., 2001). Sharma et al. (2003) found substantial variances in the evaluations of satisfaction with the succession process given by the founder and the next generation. The founder's retirement and communication regarding the information of a succession plan were found to be the main points of perceived disagreement between both first generation founders and next generation successors (Sharma et al., 2003; Sciascia et al., 2012). To illustrate how this might arise, first generation founders of family business frequently have substantial financial and emotional investment in their business, which give them authority and influence (Bjuggren and Sund, 2001; Cannella and Shen, 2001). Furthermore, founders usually have emotional and identity attachment to their business, which can create resistant to retirement (Handler, 1990; Sharma et al., 2003).

Proceeding from the above literature, which views succession as more of a process which needs prior planning rather than as a single event, the next section will review a selection of succession planning models, to further elucidate this process.

4.3 The Succession Planning Models

In this section, certain succession planning models are described and discussed. The lists of models presented in this section are not exhaustive; meanwhile, there are a number of other models developed by researchers and other family business practitioners.

4.3.1 Father-Son Succession Process Model

Longenecker and Schoen (1978) suggested a framework to represent a model of the father-son succession process which is divided into seven stages and categorised by two fundamental events related to these stages. The first fundamental event is when the

successor enters the business as a full-time employee and the second fundamental event is when the leadership is passed to the successor (Longenecker and Schoen, 1978; Handler, 1990). The first three stages cover the time before the successor enters the business as an employee. The remaining four stages are when the successor is working as a full-time employee and is prepared to be the next leader in future (De Massis et al., 2008). In the suggested structure, shown in Figure 7, father-son succession consists of seven stages, including: (1) pre-business, (2) introductory, (3) introductory- functional, (4) functional, (5) advanced functional, (6) early succession, and (7) mature succession (Longenecker and Schoen, 1978).

**PROPOSED FRAMEWORK OF ANALYSIS—
STAGES OF FATHER-SON SUCCESSION**

Pre-business	Introductory	Introductory- Functional Entry of Successor 	Functional	Advanced Functional Transfer of Presidency 	Early Succession	Mature Succession
Successor may be aware of some facets of the organization or industry. Orientation of successor by family members, however, is unplanned or passive.	Successor may be exposed by family members to jargon, organizational members, and environmental parties prior to part-time employment in firm.	Successor works as part-time employee in organization. Gradually, the work becomes more difficult and complex. Includes education and work as full-time employee in other organizations.	Successor enters organization as full-time employee. Includes first and all subsequent non-managerial jobs.	Successor assumes managerial position. Includes all supervisory positions prior to becoming the president.	Successor assumes presidency. Includes time successor needs to become leader of organization or more than <i>de jure</i> head of organization.	Successor becomes <i>de facto</i> leader of organization.

Figure 4 Father-Son Succession Process Model

Source: Longenecker and Schoen (1978)

Generally, pre-business, introductory, and introductory/functional stages are considered to occur before the successor joins the business. The first stage is pre-business, when the successor is only aware of some facets of the organisation and has limited critical information. The second is the introductory stage, where the successor is not working, even on a part-time basis in the business. The third one is the introductory-functional stage, where the successor works as a part-time employee; tasks can become more

complicated, especially if he/she is engaged in education or a full time job in another organisation (Handler, 1994).

The functional and advanced function stages are linked to the successor's development to become a full time member of the business and supposing to become the leader. At the functional stage, the successor enters the organisation as a full-time employee, but he/she will not be offered a managerial position, in contrast, in the advanced functional stage, the successor is assumed to be granted a managerial position. Finally, the last two stages are the early succession and mature succession, which are linked to activity and learning after the successor has acquired leadership position. Furthermore, the early succession stage is the time during which the successor is prepared and trained to obtain a variety of skills to manage the business, because he/she is supposed to be the future leader. Following that is the mature succession: at this time the successor becomes the head of the organisation. (Longenecker and Schoen, 1978; Handler, 1994).

In summary the above-mentioned model consists of two fundamental events, the entry of the successor into the business, and the successor gaining a leadership role within the business. These events are further explained by the seven stages of the model. The next section will explain The Life Cycle Model.

4.3.2 The Life Cycle Model

Churchill and Hatten (1987) suggested a life cycle model to describe the succession process in a family business. They claim that succession stages in family business have been shaped by the interaction between two different generations in the company represented by father and son working with each other in the same place (Handler, 1990). It is a four stage succession process model (see Figure 3.2 below). The first stage

is an owner-managed business; this is the start-up stage where the owner founder is managing the business based on his/her leadership skills to set the business culture and is important to running day-to-day activities.(Handler, 1994; Sharma et al., 2012b). The second stage is training and development of the new generation, when the offspring learns the business; starting from childhood in family meetings and working in the company in part-time jobs where he/she can get knowledge, skills and experience. The third stage is partnership between the generations, where the next generation shows development in their competences and deserves to be delegated some responsibilities and to participate in decision-making process. In addition, it works as a bridge to the fourth and final stage, which is power transfer, where responsibilities shift to the successor and a new generation now leads the company. The founder withdraws from the business to help smooth the process of succession (Handler, 1994; Churchill and Hatten, 1997).

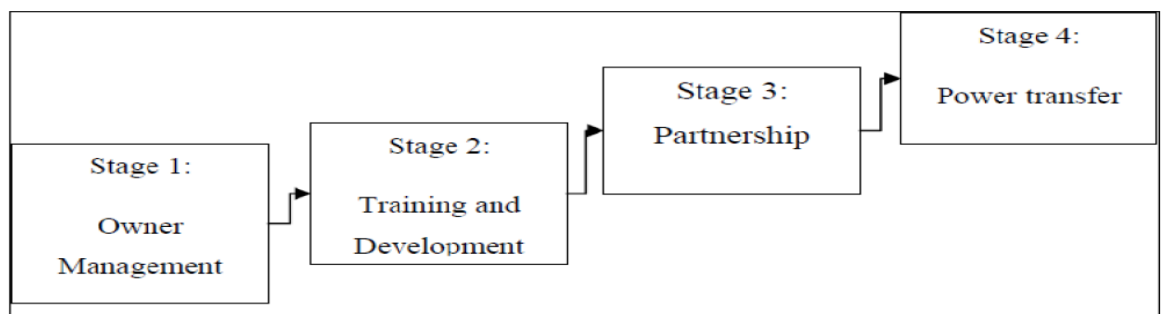


Figure 5 Life Cycle Model
Source: Churchill and Hatten (1987)

Thus, the life cycle model is about the interaction between the founder and the successor where they work at the same company where the successor develops and gains experience until the founder passes leadership to him/her.

4.3.3 Mutual Role Adjustment Model

Handler (1989) suggested the mutual role adjustment model. The essential feature of this model is that the founder and the successor should both have the capability to modify their role in the business in response to any change in the environment (Handler, 1989). The succession process is affected by the time that both founder and successor take to modify their roles: the longer the time the later the succession process may be achieved (Cater and Justis, 2009). However, If the individual factors related to the founder are positive (e.g. having good leadership qualities, the skill of delegating responsibility, and has developed a culture of independence), then this will lead to a successful succession process (Handler, 1989).

Handlers mutual role adjustment model is based on the life cycle model proposed by Churchill and Hatten (1987) (see 4.3.2). Handler suggests that family members cover precise roles throughout the succession process, and those roles change over the stages of the transition (Handler, 1990). However, the succession process is related to the individual's life, which consists of three phases. The first of these starts before the successor joins the business as a full time employee, which is labelled as the personal development phase. The second is the business involvement phase, which is when the successor is a part of the company, where he/she gains more experience, knowledge and managerial skills. Finally, the leadership succession phase is when the successor is in charge of the business (Handler, 1990; Nordqvist et al., 2013). Furthermore, Handler (1990) constructed a framework that shows the factors that may determine the succession experience, from the next generation family members' points of view and suggests three levels of influence; individual influence, relational influence and external influence. Firstly, individual influence consists of the personal need of alignment and personal influence. The personal needs of alignment show the individual needs linked

with his/her desire in terms of his or her career interest, personal identity, psychosocial development and needs associated with exploration. The personal influence represents the individual's ability to take charge of the crucial situations within the family business. However, the next generation family members need both these influences to judge the quality of experience. Furthermore, when individuals experience these influences, they are likely to feel more highly invested in, enthusiastic, and satisfied with their experience in the family business. However, when individuals experience low personal need of alignment and personal influence, they are likely to feel, unfulfilled, angry and aggrieved, which can lead to succession failure (Handler, 1994; Duh et al., 2007; Gilding et al., 2015).

According to Handler (1990), relational influence includes the relationship between next-generation family members and other individuals in the family, and the correlation between the family and the business. Therefore, relational influence represents the notions of mutual respect and understanding between generations, sibling accommodation and commitment to family business continuation (Salvato and Corbetta, 2013). Mutual respect and understanding between generations shows an interactional relationship between owner and next-generation family members which is characterised by trust, support, feedback, learning, friendship, and sharing information. In contrast, a lack of mutual respect and understanding is characterised by a general difficulty in communication, negative criticism, lack of support, and lack of trust (Handler, 1990; Helin and Jabri, 2015). Sibling accommodation occurs when there is a settlement between siblings on their relative positions. This is a key aspect of the interactive relationship between siblings. It assists the team feeling among family members involved in the business. However, sibling competition expresses itself as disagreement over ideas, strategies and rules within the context of the business.

According to Handler (1994, p,143), *“Thinking about how sibling relationships might have been different if their parents allowed them to resolve conflict on their own can be an effective part of the process.”* (Handler, 1990; Tatoglu et al., 2008).

In addition, to involve next-generation family members in the business, the role of adjustment needs a long time because it is a slow and indirect process. Moreover, the transferral of leadership experience, authority, decision-making power, and equity evolve through the process (Handler, 1990; Ashley-Cotleur et al., 2013).

In this model, the succession process has a mutual role adjustment between the predecessor and next generation family members. This consists of four phases that describe the interactive role of the founder and the next generation. However, each phase has its own characteristics.

The first phase of a business is the sole operator phase, which occurs when a business is founded. At this stage the founder may not think that a succession plan is needed. According to Handler (1990), a paternalistic culture is the most common pattern, where relationships are arranged hierarchically, with the founder or other family leaders retaining all decision making authority and the key information about the business operations (Handler, 1990; De Massis et al., 2008). This may lead the next generation to not have a clear role within the business.

The second phase is when the next generation are described as helpers and the founder becomes a monarch and has preeminent power over other family members. However, although the next generation learns the operations and skills associated with one or more departments of the organisation, it has been found that individuals of the next generation

still articulate some dissatisfaction with their level of responsibility or with the type of work they were performing (Handler, 1989; Daspit et al., 2015).

The third stage is when the founder becomes overseer/delegator and the next generation members move to managerial roles. However, they will not be able to move to these roles until the founder is able to oversee these role transitions and delegate essential responsibilities. This is a sensitive transition, which depends on the founder's capacity to trust, share, and delegate responsibilities (Handler, 1989; Gilding et al., 2015).

The fourth and final stage is the most critical of the succession process, because the founder's role is described as consultant and his/her involvement in the business activity is decreased. The founder may serve on the board of directors in the company. However, the next generation of the family control, manage, lead, and take the full responsibility of the business (Handler, 1989; Handler, 1990; Koffi et al., 2014).

Handler (1990) concluded that many founders have not moved beyond the monarch stage, maintaining the company control. In contrast, many successors have not moved beyond the helper or manager stage because of the inability of their parent(s) to authorize their increased power.

The Succession Process: Mutual Role Adjustment Between Predecessor and Next Generation Family Member(s)

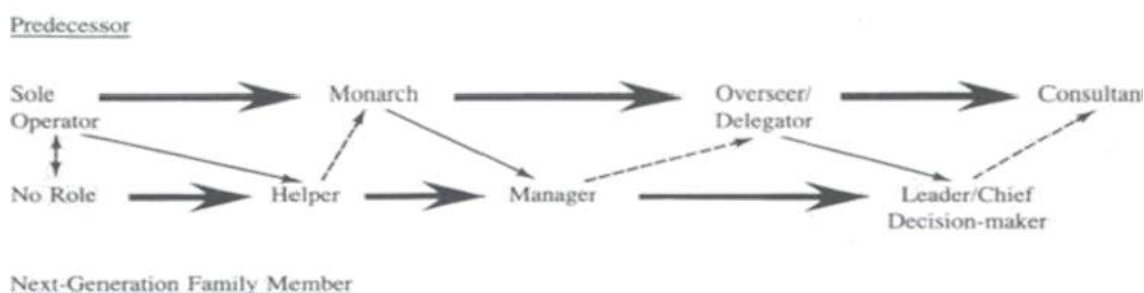


Figure 6 Mutual role adjustments
Source: Handler, 1990

Thus, although the mutual role adjustment model shows a shared role between the founder and the next generation to move through stages until the succession process is achieved, Handler concludes that many founders and successors fail to achieve this because of the founder's centralised control.

4.3.4 Stepping Stone Model for Family Business Transfer

This multi-stage model was suggested by Lambrecht (2005) based on the empirical study of a number of family businesses. There are seven steps, as shown in Figure 7. The first step is entrepreneurship, where the founder transfers business information, knowledge, management values and leadership style to the next generation (Lambrecht, 2005).

The second step is when the successors get a degree or achieve educational training before joining the family business as full-time employees. They may study something related to their family business industry, e.g. finance, marketing or engineering. This may enable them to be better prepared to run a business. In other cases, prospective successors are free to choose a discipline (Lambrecht, 2005).

The third step is the formal internal education and training delivered to prospective successors (Tiffet and Jones, 1999). The successors start joining business meetings, and they work to increase their knowledge, and experience linked to the business. However, at this stage the founder has the chance to increase his/her opportunity to evaluate and assess the competences of the successors (Lambrecht, 2005).

The fourth step is about the experience and knowledge gained outside of the family firm, assisting the prospective successor for the future (Lambrecht, 2005). In the fifth step, the successor builds his/her self-confidence and demonstrates his/her capability after joining the business as a full time employee. In this step he/she will gain experience

of all divisions of the company, by being offered the chance to work in all these divisions, to understand the business they will lead at some point in the future (Lambrecht, 2005; Koffi et al., 2014).

The sixth step relates to the written plans and agreements. The plans explain what to do in case of sudden death or retirement of the owner founder. They also explain the official methods of transferring ownership (Lambrecht, 2005). However, the founder should be aware of the necessity of training and preparing the successor to take over the leadership/ownership of family business (Lambrecht, 2005).

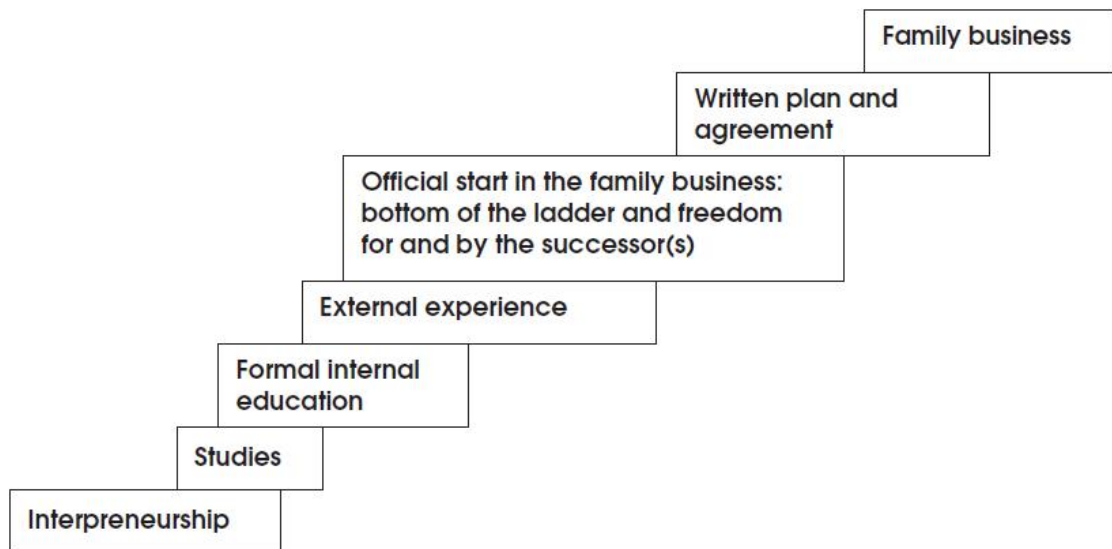


Figure 7 Stepping Stone Model for Family Business Transfer
Source: Lambrecht 2005

The above model has multi steps describing the process of preparing the succession plan, which include the preparation of a programme for the next generation. After discussing some of the models that focus on the succession, as a process the next section will discuss a number of factors and issues that relate to and influence the family business succession.

4.4 Succession Process Related Factors and Issues

The previous section discussed four succession models. They illustrate the importance of family succession planning preparation and show some suggested stages in planning in order to ensure family business continuity.

When the founder plans to transfer the business to the next generation, he/she should apply the succession process, to ensure an effective transition, but there are a number of proposed factors and associated issues that can affect the succession process (Ibrahim and Ellis, 1994; Lee et al., 2003b; De Massis et al., 2008). This section will introduce some issues associated with the implementation of succession planning in family businesses and factors that affect this transition.

4.4.1 The Effectiveness of the Succession Process

A successful succession should contain a plan to develop and prepare the next generation to be ready to run the business in the future (Breton-Miller et al., 2004; Arregle et al., 2007). The founder and the successor are expected to work together to exchange roles, and manage the procedure to run the business (Handler, 1992; Arregle et al., 2007). Family problems can affect the business and because of that family issues should be kept separate from business issues (Cabrera-Suárez et al., 2001; Olson et al., 2003; Sharma et al., 2012a). Furthermore, recognising and determining the roles of family members who should support the founder generation and the next generation through the succession process is necessary to develop a durable and strong relationship between the founder and his/her successor (Chrisman et al., 2004b; Eddleston and Kellermanns, 2007). Moreover, it is important to determine the criteria and conditions that are essential for evaluating the successors' abilities and skills (Handler, 1992; Chrisman et al., 2004b; Mitchell et al., 2009; Pendergast et al., 2011).

In general, the founder is the one who has the greatest influence over executing the succession process, and choosing a successor (Handler, 1994; Sharma et al., 2003). However, the founder choices during a succession process may be centred on the needs of the family rather than on the needs of the business. Therefore, conflicts occur when the needs of the family do not match with the needs of the business (Olson et al., 2003). For instance, choosing a specific time for the transfer of ownership or leadership from the founder's perspective depends on factors such as the founder's health circumstances, the founder's interest and participation in activities outside the business and the founder's personal financial security (King, 2003; Bocatto et al., 2010). In addition, if the family desires to retain the supervision of the business under its control, the founder may select a successor from the family members to manage the business rather than a non-family member who may have more skills and experience (Bocatto et al., 2010). Moreover, when the founder selects the successor from one of his/her children, it is often dependent on non-relevant factors, such as the siblings' age, birth order, gender, or the quality of their relationships with other family members, rather than the skills and experience of the successor or the requirements of the business (Murray, 2004; Bocatto et al., 2010). An effective succession includes the founder, who is no longer involved in the day-to-day business activities and the successor being in possession of the title and power to make autonomous business decisions. Subsequently, the management of the business should observe a positive trend in performance. (Churchill and Hatten, 1997) .

Dyck et al. (2002) argues that the effectiveness of succession depends on the appropriateness of the successors' skills and experiences, timing, method of achieving succession, and communication between the founder and successor. Moreover, the transfer of implicit knowledge, social networks, and social capital across generations

are important for the succession (Duh, 2012). Additionally, the owner/founder of a family business will retain a substantial amount of distinctive knowledge and long experience. (Cabrera-Suárez et al., 2001; Steier, 2001; Lee et al., 2003a; Tatoglu et al., 2008). Nonetheless, when the next generation family members participate in strategic planning, this may qualify them to obtain essential implicit business knowledge. This experience, along with interactive work relationships between the founder and next generation helps construct trustworthiness and acceptability for the next generation within the business (Mazzola et al., 2008; Sharma et al., 2012a).

In order to facilitate the succession, the existence of a prepared, trustworthy successor from the next generation of the family is essential (Sharma et al., 2003). Nevertheless, without the aspiration of the founder to retain the business in the family, the chances of an acceptable and successful succession are almost nil (Eddleston and Kellermanns, 2007). Moreover, when the founder does not have the interest in succession, it is more possible to postpone, terminate or damage its final application. Consequently, the founder should avoid confusion and conflicts with any potential successors, because they are essential for the succession process (Breton-Miller et al., 2004; Ip and Jacobs, 2006). Therefore, without the commitment of the founder, the successor, and the family to the succession process, it might be proper to think about selling the business rather than transferring it within the family (Sharma et al., 2003; Duh, 2012; Parkhurst, 2013). The effectiveness of the succession process in the family business which leads to continuity in the future depends on the awareness, willingness and setting of the plan from the founder to keep the business within the family. However, it also depends on the family business successor(s) on their involvement and willingness to run the business.

This study proposes that the founder's awareness about the importance of the succession plan, and his/her willingness to set the plan is essential to achieve family business continuity in Saudi Arabia context. The next section will outline a number of issues associated with the preparation of business transfers.

4.4.2 Issues Associated with the Preparation of Business Transfers

Failure in family business succession can cause serious difficulties not only to an individual business but consequently to an economy as a whole. Thus family succession planning has a great consequence.

A study by the European Commission identified three types of problems associated with the planning of business transmissions (Transfer of SMEs, 2002). The first type of problems is emotional, where some founders, who shaped and constructed their own businesses over the years, are unwilling to handover their business to others. They can also cause delay in transferring the expertise and talents to the next generations. However, there are various unseen emotional problems that can affect the founder, such as a founder who has devoted most of his/her time to managing and monitoring the business, and who is afraid of losing a dominant role in the family, and may link retirement to his/her death (Bjuggren and Sund, 2001; Sharma et al., 2001; Dyck et al., 2002).

The second type of problem is the complication of a succession process which stems from two aspects. The founder may have little or no experience in applying a succession process to their business. Also the founder may not know where to look for advice when dealing with this. These two aspects can complicate the succession process (Dyck et al., 2002; Malinen, 2004; Duh et al., 2007).

The third type of problem is centred on the understanding of entrepreneurship. This comprises various difficulties and complicated events in which a percentage of implicit knowledge cannot be simply transmitted from one generation to another. However, there are numerous competences and practical knowledge that makes the company successful. These can be learned when the old generation works with the new generation (Stokes and Blackburn, 2001; Haldin-Herrgard, 2007; Duh, 2012). The next section will discuss the factors that affect the succession.

4.4.3 Factors Affecting Family Business Succession

De Massis (2008) categorised the factors that prevent the succession into (1) individual factors, (2) relational factors, (3) contextual factors, and (4) process factors. He suggests that individual, relational and process factors have a direct effect over the succession (De Massis et al., 2008). Individual factors are associated with motivation of single individuals, and are divided into successor-related factors and founder-related factors.

The successor-related factors include the following factors: first, low capability of the potential successor. The succession might not be successful if the potential successor is not capable and does not have the essential skills to manage the family business. However, the successor may not accept to take over the position if he/she is not qualified, or the board of directors may refuse the potential successor to be appointed as a new leader because the successor's capability is not enough to lead the business (Barach and Ganitsky, 1995; Astrachan et al., 2002; De Massis et al., 2008).

Secondly, dissatisfaction or lack of motivation of a potential successor means that the successor is not enthusiastic about being the future leader of the company (Chrisman et al., 2004b). Succession can be prevented when the successor rejects the leadership

position, or the board of directors reject assigning him or her, due to the successor's lack of motivation being a major factor (Cespedes and Galford, 2004; Sharma, 2004; Zellweger et al., 2012).

Thirdly, there can be the sudden loss of a potential successor (e.g. through death or illness) (Handler, 1989; Debicki et al., 2009). However, if this occurs in a non-family business, another manager can be employed. In contrast, in the case of family business, if only one prospective family successor exists, then the succession is unlikely to happen (De Massis et al., 2008).

The founder-related factors consist of, firstly, a personal sense of attachment of the founder with the business. When the founder is unwilling or fails to transfer the business to the successor it is one of the obstacles to effective succession (Sharma et al., 2001). Moreover, the successor might lose the chance to develop his/her abilities and skills that are essential to manage the business because the founder is too attached to the business. Consequently, the successor may plan to find other opportunities out of the family business or the board of directors may assume that the successor has not had adequate experience and skills to run the family business (De Massis et al., 2008).

The second factor is sudden loss of the founder (e.g., through death or illness). This can prevent the succession. It can change the structure of the board of directors of the company, which may cause alterations in its objectives, and changes in succession planning (De Massis et al., 2008; Chrisman et al., 2012).

The third factor relates to a founder's unexpected remarriage, divorce or birth of new children; when such events occur at the time of the succession process, they may prevent the succession taking place. For example, in the Bonnier Group, the leader of the sixth

generation he may have had six children by three wives, which generated a problematic inheritance and affected the succession process (De Massis et al., 2008).

Relationships amongst individuals are important to the family business continuity because inappropriate interpersonal relationships might be a source of prospective conflicts that prevent succession going ahead (Davis, 1983; Churchill and Hatten, 1997; De Massis et al., 2008).

The relational factors include first, conflicts, rivalries and competition in parent-child relationships. The quality of the relationship between founder and prospective successor is critical to ensure the progress of the succession process. However, the successor might search for opportunities outside the business, or conflict may lead the founder to restrict the successor's role (Lansberg, 1988; Lee, 2006).

Secondly are the conflicts, rivalries, competition that may arise among family members. A strong family relationship has a positive impact on the succession process. By contrast, conflicts between family members might have a destructive impact, which may prevent the assignment of the successor (Churchill and Hatten, 1997; De Massis et al., 2008; Cater and Justis, 2009).

Thirdly is lack of trust in the potential successor by other family members. One of the selection criteria of a successor is that he/she must be trusted to be selected as a future leader of the family business. Moreover, truthfulness has been founded to be one of the significant elements of a prospective successor (Barach and Ganitsky, 1995; Sharma et al., 2001).

The fourth factor is lack of commitment to the potential successor by family members. If the successor is not supported by the family members and they are not loyal to the

prospective successor, he/she may not be able to show capability to manage the business, and could miss the board of directors' support and confidence, which can prevent the succession (Lee, 2006; Cater and Justis, 2009).

The fifth factor is the possibility of conflicts between the founder/potential successor and non-family managers (Bruce and Picard, 2006). Furthermore, when the founder leaves, conflict between the successor and non-family manager(s) can affect family business continuity. Consequently, the board of directors can avoid appointing the successor, and the successor might take the decision to not join the family business by refusing the position, in order to reduce the conflict (De Massis et al., 2008).

The sixth factor is lack of trust and commitment towards the prospective successor by non-family members, who reject the successor from being appointed to the top management. Moreover, a non-family manager can threaten the family business by quitting the business when the founder announces who will be the next leader, and this lack of commitment from the non-family manager can limit the successor's chance of taking the leadership (De Massis et al., 2008).

The contextual factors relate to the business and economic environment, which usually fluctuates. This can affect the succession process and, consequently, business continuity (Pfeffer and Salancik, 2003). The first factor, change in business performance concerns a variation in market circumstances such as business growth, and increased market rivalry might considerably change the future family business succession plan proposed by the board of directors (Lauterbach et al., 1999; Karaevli, 2007). For instance, if the family business is facing the chance of failure because of the change in market performance, the founder might plan to sell the business, under pressure, rather than keep it, to prevent succession (Cespedes and Galford, 2004). Furthermore, the

probability of a decrease in the financial income from a successor's point of view, because of the negative market conditions, might lead a successor to search for outside opportunities (Sharma et al., 2001).

The second factor is a reduction in business scale. Stavrou, (1999) proposes that there is a constructive connection between business magnitude and the intentions of the next generation to enter the family business. Consequently, a prospective successor might try to increase his/her future income outside the family business, because his/her perception is that the larger the size of the business the more income he/she can earn (Venter et al., 2005).

The third contextual factor is deterioration of the relationship between a prospective successor of a family business and customers or suppliers. Family business customers and suppliers are frequently on familiar terms with the owner/founder (Lansberg, 1988), with a healthy and mutually trustful relationship continually growing over time. However, prospective successors may face problems in creating comparable relationships. Accordingly, some customers or suppliers might prefer and request to continue to deal with the family business founder. Therefore, if those customers or suppliers are important to the existence of the family business, this could possibly stop succession from taking place (Ward, 2011). As has been shown, business links are important for the business affected but this is also continued by what are known as process factors, which have a direct effect on whether the succession takes place.

The process factors are about developing, preparing, and evaluating the successor, and are thus connected to the other individual factors. In addition, the process factors are related to the relational factors in focusing on communication between family business

stakeholders. (De Massis et al., 2008). These factors are divided into three categories, depending on the activities that relate to the succession process.

The first category of process factors is associated with the preparatory activities, firstly, the ambiguity about the roles of the founder and the prospective successor. Having clear roles for both the founder and successor during the succession time is a critical element for business continuity. Therefore, if the roles are not clear that may impede the successor's capability to gain esteem. Consequently, that may stop him/her from obtaining the commitment from other stakeholders to ensure the succession. Similarly, because of the vagueness of his/her role during the succession process, the prospective successor might refuse the top management position because he/she is not motivated enough, (Ward, 2011). In addition secondly, lack of communication with family members and other stakeholders about the decisions correlates to the succession process. Sharing visions about the critical aims of the family business are indispensable to succession, so, conflicts can happen because of misinterpretations, as a result of a lack of shared vision between the stakeholders (Dyer and Handler, 1994; Ward, 2011).

The second category includes the factors related to the development of a successor. The first of these is inadequate evaluation of the gaps between business needs and a potential successor's skills and experience. If there is not a precise evaluation this can affect development and training plan, the prospective successor's preparation may not be appropriate, which could affect his/her appointment (Fleming, 2000; Breton-Miller et al., 2004). Another factor is failing to train a prospective successor, as the preparation of a prospective successor is a critical factor for succession (Morris et al., 1997; Sharma, 2004). Moreover, the successor must have a clear plan about formal leadership training inside and outside the family business including work experience, which that might be

compulsory (Churchill and Hatten, 1997; Ward, 2011). A further factor that can prevent succession is late or inadequate exposure to the family business, as a successor needs to build a positive relationship with the stakeholders, gain knowledge of company culture, objectives and strategy. (Lansberg and Astrachan, 1994; De Massis et al., 2008; Cater and Justis, 2009). The final factor is lack of feedback given to the successor about the succession process. Through the succession process, alterations in anticipations, succession objectives, strategy, or industry situation may restructure succession (Osborne, 1991; Dyck et al., 2002). Moreover, periodic feedback about succession progress is important to shape and help successor awareness; otherwise, the prospective successor may become discouraged and choose to leave the family business and therefore stop the succession (Breton-Miller et al., 2004).

The third category includes the factors that determine the selection of a successor. The first of these is not formalising rational and objective criteria for selection. The successor selection should be founded on sensible and objective criteria; if these are not clear that can raise conflict with family members and other stakeholders, because they perceive it as an unfair process (Levinson, 1971; Schulze et al., 2001; Pieper et al., 2013). The second factor involves failure to fully define the team responsible for choosing the successor (Ward, 2004). Conflicts can arise between family members because they may think the selection process is unfair, therefore preventing the required succession (Miller and Breton-Miller, 2006).

This study proposes that there are a number of factors that affect family business succession continuity in Saudi Arabia. Based on the factors identified in this section The study will investigate these factors.

The board of directors has an important role as top management responsible for decision making, and choosing a successor is one of their tasks which is vital to family business continuity. The next section will discuss these points.

4.4.4 Family Boards of Directors

The family board of directors has an important role in leading the family business to success. It plays a major role in setting business policy, business strategy, and planning. The board has vital tasks related to family mission and vision, succession, and strategic planning of the next generations (Pendergast et al., 2011). According to Schuman (2011), one of the most significant accountabilities of the family business board of directors is to recognise capable successors, but a successful succession process needs to promise future leadership success. Schuman (2011) clarifies the role of the board of directors in terms of future leadership of the company by stating that: *“The board of directors holds the company’s top management accountable for defining competencies needed for the future and for making career and leadership development a priority”*(Schuman, 2011 p. 52). Furthermore, to ensure successful succession, the board and top management should offer the time, resources, and consideration to define future successors and should be concerned about choosing skilled, experienced, well-educated future leaders (Schuman, 2011).

Moreover, family boards have a significant role in dealing with possible family disagreements and providing recommendations. The succession decision includes not only capability but also features of preference, authority, and legitimation (Churchill and Hatten, 1997; De Massis et al., 2008). However, even if a successor has great capability, he/she may still be an unsuitable selection if that choice will end in conflicts with or between key family members (Pendergast et al., 2011). These boards thus

constitute an essential forum for developing agreement about crucial problems; as pointed out by Eddleston and Kellermanns (2007 p.547): *“Many family members work harmoniously with each other. Some family firms are characterized as involving members who significantly contribute to the business, collaborate on strategic issues and have cohesive and positive relationships.”*

Borokhovich (2006) found that the quality of an independent board of directors is vital in many cases, e.g. the founder's sudden death, where they have great influence on the process of succession. However, the board of directors can be described as weak or strong in contrast with the power of the founder. They can be either participative or non-participative. The number of directors can be either small or large, and the board can be composed entirely of family members or there can be a large number of non-family members on the board. Each of these differences and mixtures can affect the succession in a family business (Borokhovich et al., 2006).

4.4.5 Company Size and Succession Rate

The larger the size of the business the higher the rate of successions that happen within the business (Parkhurst, 2013). This is because, the large sized businesses tend to constantly improve and develop future managers inside the company. Therefore, larger companies tend not to recruit from the outside. In contrast, the small sized companies may not have an appropriate internal applicant and may be required to recruit from the outside (Lauterbach et al., 1999; Garman and Glawe, 2004).

Lauterbach et al. (1999) argue that internal applicants offer smooth transition and constancy, since they are familiar and have contributed in developing the current business strategy. Insider successions also encourage loyalty, and employees'

commitment to work (Lauterbach et al., 1999). However external successors may add a positive influence to a family business. They can improve a company by new perceptions, additional concepts and significant new activities (Avolio et al., 2003; Giambatista et al., 2005).

In general, small sized firms have limited resources and usually have fewer outside successors than larger firms, which would have surplus resources to attract external talent (Lauterbach et al., 1999; Barker III et al., 2001). However, small sized businesses have a more positive opportunity for continuity. For example, the business founder may have the ability to increase his influence by selecting a family member as a successor rather than someone who is unrelated (Bennedsen et al., 2007). Shen and Cannella, (2002) point out that the small size firm has a concentration of ownership, and authority. This can cause problems, as discussed in section (3.8) which seem to be repeated through the succession process (Shen and Cannella, 2002).

The above section shows the relationship between the size of the company and the succession rate, which is a factor that could affect continuity. The next section will focus on the differences between the characteristics of the founders and the next generation and their effects on business continuity.

4.4.6 Characteristics Distinguishing Founder Generation from Next Generation

The family business literature proposes a diversity of differences between the founder generation and the later generation (Gersick et al., 1999; Sonfield and Lussier, 2004; Westhead and Howorth, 2006). The first difference concerns decision-making, which is more centralised in the founder generation than in later-generation family businesses (Dyer and Handler, 1994), because the founder generation is the one launched and

developed business (Brun De Pontet et al., 2007). However, when the business is transferred to the next generation it leads to a decrease in the founder's centrality (Cruz and Nordqvist, 2012). Hence, the decision making becomes less centralised (Kelly et al., 2000; Athanassiou et al., 2002). The second difference is that a next generation family business is more likely to implement a more professional style of management, in contrast with the more paternalistic, informal, and personal management style implemented by the founder (Mcconaughey and Phillips, 1999; Kellermanns et al., 2008). Thus, because of the different difficulties that confront the next generation in sustaining and improving the business, they usually adopt more professionalism and formalised methods to manage the family business (Gersick, 1997; Sonfield and Lussier, 2004).

The third difference as found by Kellermanns and Eddleston (2006), is that the next generation family business is a risk-taking enterprise in contrast with founder generation which is risk averse. Risk aversion is shaped by the founder's aspiration to retain the business within the family and to sustain family wealth, which may preserve him/her from taking risks. In addition, the next generation family businesses need to pursue a new means to carry out and achieve business missions if they need to move beyond the inheritance of the earlier generation (Handler, 1992).

Jaffe and Lane (2004) highlight the need for next generation family businesses to regenerate, and recreate if they want to maintain the equivalent level of progress, development, and financial legacy of the earlier generation. However, this frequently drives more risk-taking behaviour (Jaffe and Lane, 2004).

The fourth difference is that the founder's generation tend to focus internally, due to their presence at the launch of the business. In contrast, the next generation tend to focus externally, because the business already exists in the economy and new strategies need

to be implemented to compete with rival businesses (Zahra et al., 2004; Cruz and Nordqvist, 2012). A final distinction that distinguishes a founder generation from later generations of a family business is the work towards growth (Kellermanns and Eddleston, 2006). McConaughy and Philips (1999) claim that family business continuity needs sustainment and improvement of business growth. Kellermanns et al. (2008) argue that later generation family business may put greater emphasis on increasing business growth to confirm the business' continuity.

In summary the above literature review has shown the wide range of factors and issues that affect the effectiveness of succession implementation. It has shown the importance of the role of the founder, the next generation and also other stakeholders, for example, the board of directors.

The next section will focus on the importance of the next generation preparation plan, whereas, the prepared successor who has knowledge, skills, and experience is a major player in the successful succession plan.

4.5 Development of the Next Generation

The definition of a family business is when the founder has the intention to keep the ownership and operation of the business within the family. To do this he/she needs to develop and prepare a successor; this has a key role in company longevity (Cater and Justis, 2009). Preparing the successor starts from early age, while he/she is a child. John James Cater III (2010) points out that:

The process of succession in the family business begins with the preparation of successors as children. Children of business owners are often exposed to "shop talk" or the language of the family business at the dinner table and at extended family gatherings (ibid. p.565).

4.5.1 Objectives of Successor Development

This section will deal with development elements within a family business, including the development of experience, knowledge and skills.

The objective of successor development is to develop the knowledge, skills and experience of the future leader, so that the business can continue after the departure of the existing founder (Datta et al., 2005). Such skills and behaviours are particularly important for family businesses, which rely heavily on top management responsibility (Chrisman et al., 2006).

The development of such skills and behaviour is frequently a consequence of extensive job experience, education and a continuing relationship with business (Sardeshmukh, 2008). This can be developed inside or outside the family business (Kerr and Jackofsky, 1989; Lubatkin et al., 2006). According to Handley et al. (2006) these processes contribute to the process of socialisation, which can positively influence values and attitudes. They state that: *“Learning is not simply about developing one’s knowledge and practice, it also involves a process of understanding who we are and in which communities of practice we belong and are accepted”* (Handley et al., p. 643, 2006).

4.5.2 Role of Education

As stated above, the successor can be developed both inside and outside the business. Formal business education can explain and deliver knowledge and skills that are necessary for a business environment (Yukl and Becker, 2006). As it seems to follow on from the previous point it is a significant phase in constructing additional skills and gaining legitimacy in a company. Education can provide the successors with talent to understand management ideas and use them to seize opportunities and increase growth in their business (Davidsson and Honig, 2003; Dimov and Shepherd, 2005). Likewise,

successful succession is associated with the superiority of successors (Pérez-González, 2006).

Formal education provides a significant infrastructure for readiness. In family businesses, getting an appropriate and quality education has been found to be associated with a leadership transition and successful succession performance (Dimov and Shepherd, 2005; Pérez-González, 2006; Morris et al., 1997).

4.5.3 Role of Work Experience and Training

Management, leadership and decision making skills cannot be purely gained theoretically through formal education by a potential successor. To gain these skills, practical development working within a business is critically significant for improvement (Mintzberg, 2004; Higginson, 2010). As part of the successor's training programme, succession teams must integrate theoretical and practical development into the succession plan, in an effort to ensure the right skills are in the right place at the right time (Haskins and Shaffer, 2010). Direct formal training and business experience typically include the use of a coach to work with the successor (Venter et al., 2005). Ibrahim et al. (2004) argue that coaching is a private and personal learning process focusing on all areas requiring improvement, such as organisational culture awareness, industry knowledge, business acumen, stakeholder management, social capital, passion, innovation and legitimacy (Ibrahim et al., 2004; Mazzola et al., 2008; Hartel et al., 2009).

Partly, the successor developmental plan depends on the experience gained from previous jobs (Blundell et al., 1999). The family business can benefit from external training of a likely successor candidate when he/she has worked/trained in another business organisation, for example, factories or banks. Thus the family business will

not incur investment costs (Blundell et al., 1999). Work outside the company gives the successor the opportunity to develop greater skills and beneficial behaviour. For example, working with different employees within different conditions can increase the understanding of change in business environment which is essential for family business strategy (Datta et al., 2005).

Moreover, the family business successor needs to work in a different place before joining the family firm because outside experience legitimises their capabilities in the minds of non-family employees. Outside experience can contribute to the family successors' feelings of independence and confidence and they may possibly bring in different philosophies from outside into the family business. (Barach et al., 1988; Lee et al., 2003a).

This study proposes that the development of the next generation is essential for the continuity of the family business. It also proposes that the business should have a preparation plan that includes formal and informal education, experience, and skills, both before the successor joins and after joining the business, which is essential to achieve family business succession in the Saudi Arabian context.

4.5.4 Successor Willingness

The successor has to consider the decision to join the family business: does he/she want to be a part of the company? Several family business successions have declined due to the successor's absence of commitment or unwillingness to lead the business (Sharma and Rao, 2000). Research by Stavrov and Swiercz (1998) investigated the reasons behind the motives of family members joined a family business. They found these reasons are related to the family, business, personal, and market. Family reasons include family values and relationships, whereas the personal reasons involve personal aims

and aspirations. The business reasons are concerned with business management and organisational processes. Market reasons include the job chances and career options of the successor (Stavrou and Swiercz, 1998; Vera and Dean, 2005).

A skilled family member may not have the passion to join the family business for a variety of reasons, such as unwillingness to work with other family members, different personal career concerns, and the degree of transparency of the decision-making process in the company (Covin, 1994; Motwani et al., 2006).

The founder has an important task to understand the successor's willingness to lead the business; it is necessary to examine to what extent the successor prefers to enter, or not enter, the family business. Depending on the mixture of the reasons mentioned above, the successor or family members may prefer to join the company at distinct life stages. However, the founder should not force the successor to join the business if he/she does not have the willingness. If the founder did that, it might create a managerial problem or even a business failure (Birley, 2002).

4.5.5 Successor Commitment

The successor's commitment is supposed to be at the core of a successful succession process (Sharma and Irving, 2005). In fact, the commitment to business has been found to be one of the significant characteristics of a successor (Chrisman et al., 1998; Palliam et al., 2011b). The successor's commitment gives him/herself the opportunity and the ability to adjust personal goals with those of the family business (Sharma and Irving, 2005). Closely related to the commitment to business is the notion of self-confidence. The successor who understand and knows his/her strength to achieve the assignments is expected to be more committed and less likely to give up when faced with difficulties (Bandura, 1989).

"People's self-efficacy beliefs determine their level of motivation, as reflected in how much effort they will exert in an endeavour and how long they will persevere in the face of obstacles. The stronger the belief in their capabilities, the greater and more persistent are their efforts."(ibid., p.1176)

The successor's confidence and commitment are also positively correlated with organisational performance (Goldberg and Wooldridge, 1993; Robertson and Sadri, 1993). Nonetheless, many family business successors often have low self-confidence, as they infrequently have to demonstrate their capability to be promoted, unlike non-family executives (Vinton, 1998). Because of that, the founders have to help the successors to develop self-confidence by introducing them into their professional business networks, which would build the successors' confidence, from feeling valued and trusted. In short, social networking improves successor self-confidence (Bauer et al., 2007).

4.6 Family Business Leadership in Succession

Leadership is a vital factor that leads to business survival and ultimately to success. However, the business environment and condition needs to be frequently considered to facilitate succession (Collins and Powell, 2004). Business continuity relies on the founder's leadership skills. However, a business may suffer due to the lack of the founder's business skills. This is argued to be one of the reasons resulting in the scarcity generational succession (Brant et al., 2008). However, when the leader has the strategic vision for the business, and passion to guarantee stability, he or she will begin preparation and implementation of a succession plan for the next generation (Higginson, 2010). Cater III and Justis (2010) argue that business leaders need to identify, choose and develop a talent pool of successors. However, they also argue that identifying a

specific successor from an early stage is also essential and beneficial regarding business continuity.

Brant et al. (2008) argue that leadership has four strong aspects. These comprise the competency of implementation, the competency of influence, the competence in development of constructive relationships, and the competence to think strategically over difficulties. Moreover, leadership comprises character, vision, and influence which are both individual and business related. Brant (2008) defines character as meaning psychological and moral traits, such as truthfulness, constancy, flexibility, passion to achieve, and understanding of self and others. Vision is defined as the aptitude to recognise direction, including strategic skill, an open personality, and a willingness to learn. Influence is defined as the aptitude to motivate others, to understand the importance of the business, and the skill of team building (Cater III and Justis, 2010). According to Cater III and Justis (2010, p. 566), there are *“four key components for developing leadership among successors: knowledge of the industry, technical skills, influence skills, and self-awareness.”*

The founder has a significant role and responsibility to develop leadership aspects with regards to succession planning (Brant et al., 2008). Business continuity will be affected by an unsuccessful generational transfer due to a founder's narrow view of a business future when he/she shows unfeasible behaviour. For example, a successor may be unsuccessful due to a founder not devoting adequate time, training, knowledge and opportunity for growth (Groves, 2007). Furthermore, a weak relationship between founder and successor will limit the opportunities that should be provided to the successor in order to succeed (Groves, 2007)

Cater III and Justis (2010) argue that to transfer the business to the next generation requires a well prepared successor with sufficient leadership skills to make decisions.

This depends on both founder and successor. An example of the result of this lack of skills would be the successor being disinclined to manage the business, leading to an unsuccessful succession. Additionally, to achieve a successful succession process the successor should have knowledge of the expense and effort that are requisite to run the business. If he/she is unaware of these, the succession process will be unsuccessful (Cater III and Justis, 2010). Finally, if the successor is incapable of acquiring the leadership features of appreciation, respect, or concern, the succession process will be unsuccessful (Cater III and Justis, 2010).

Consequently, a strong personal and business relationship with the addition of sharing information between the founder and the successor are important to a succession of family business. An example of this would be when the founder seeks to improve his or her mentoring relationship with the successor. In addition, planning considerations are relevant here, including truthfulness and appraisal of business strengths, including improvement of leadership competences, thus generating likely constructive family business succession (Groves, 2007). Also, the founder and successor need to maintain a mutually beneficial working relationship in order to strengthen the link between them. This will develop inclusive experience for the successor and incubate his/her leadership talent (Groves, 2007). However, both the founder and the successor are required to show commitment throughout the succession process. Furthermore, the founder needs to prepare the successor in areas such as knowledge of the business's industry, interpersonal skills and organisational awareness (Cater III and Justis, 2010).

As has been stated above, this leads the researcher to propose that it is essential that the founders of companies in Saudi Arabia invest in the identification and development of future leaders. This includes the improvement of leadership ability to achieve a robust business commitment to the planning of family business leadership succession.

4.7 Summary

Through the above review of family business succession planning there are several roles of the founder to achieve. These include, development of strategic planning of family firms, their values, and the principles underlying them. Moreover, as noted by previous studies, a founder is influenced by the environment and the society in which he/she lives. This could have a direct impact on his/her beliefs, social skills, values and culture. This can be reflected directly on the founder's style of company management (Schein, 2004).

The next generation within a family business is considered as one of the most important pillars of a company's continuity, but it is essential that these generations are well prepared by developing their skills, knowledge, and experience to take the lead after the founding generation disappear. A crucial issue in successful succession is to make sure that the next generation is equipped to take responsibility for the leadership/ownership role within the firm (Higginson, 2008). Moreover, training the next generations and introducing them to the family business is one of the significant tasks that should be achieved by the founder. Family business refers to the intention of the founder to keep the business within the family through succeeding generations, but this requires preparation of a succession plan.

In light of the above discussion, it can be seen that the personality of the founder may have a direct influence on his/her intention to plan next generation succession to take over the leadership of the company. Furthermore, the succession process and stepping up to the next generation are important elements of the longevity of family business, and this may be an influential task by the founder. The next chapter is about the research design and methodology that will be applied to achieve the objectives of the study.

CHAPTER FIVE

Research Design and Methodology

5 Research Design and Methodology

5.1 Introduction

The previous chapters have illustrated the socio, economic and cultural context of Saudi Arabia, the area of study and also examined the family business and the family business succession, presenting the framework and literature to guide this study. The main purpose of this chapter is to justify and explain the research methods employed in this study to collect the data. The study investigates a vital area, which is the succession of the family business, with the majority of family firms failing to achieve intergenerational succession and to maintain the business in future as has been discussed. The main goal of the research is to explore the importance of succession of family business in Saudi Arabia and the related factors that influence the process, and thus increase understanding about the Saudi family business context.

According to Cresswell (2007), to enhance the validity of the research the approach should be justified effectively. Research is concerned with conducting a satisfactory inquiry to obtain results for the research questions. Reaching a decision regarding a suitable research methodology is, consequently, a key part of planning the steps to be taken to complete it (Creswell, 2012). Leedy and Omrod's (2005a) definition of research is:

“A procedure by which we attempt to find systematically, and with the support of demonstrable fact, the answer to a question or the resolution of a problem. Therefore, research is about using organised processes (research methods) to assess or create concepts, facts and explanations to broaden knowledge or resolve problem (Leedy and Ormrod, 2005a).

Methodology '*refers to decisions of how research is done, or should be done, and to the critical analysis of methods of research*' (Blaikie, 2009, p. 8). Accordingly, this chapter will distinguish the philosophical approach to the research itself, give an overview of the research design and methods adopted, and the methodological aspect of the study. This chapter will also describe and discuss the research approach to be applied in order to acquire data that achieve the research objectives.

5.2 Research philosophy

5.2.1 Introduction

Selecting the research philosophy is one of the most critical phases that a researcher should be aware of when seeking answers to a research problem. In any study, either qualitative or quantitative, particular attention must be given to recognising the philosophical assumptions that lie behind the research. Saunders (2009) claims that the research philosophy is affected by the researcher's perception about the way knowledge is improved. Certainly, it includes critical assumptions regarding the way people perceive the environment. The adoption of a research philosophy depends on the research questions. Additionally, the selected research strategy is determined by the researcher's adopted approach (Saunders, 2011).

Easterby-Smith et al. (2012) point out that gaining more knowledge about research philosophy is very significant for three reasons. First, it enables the researcher to take a more informed decision about his/her research design. Secondly, it will help the researcher to think about those research approaches that will work for him/her and, critically, those that will not. Thirdly, knowing the different research approaches enables the researcher to adapt his/her research design to provide for its constraints (Easterby-Smith et al., 2012).

5.2.2 Positivism versus Phenomenology

Positivist research philosophy is based on the research methodology commonly used in science. Bryman and Bell (2007) define positivism as “*an epistemological position that advocates the application of the methods of the natural sciences to the study of social reality and beyond*”. It is characterised by a detached approach to research that seeks out the facts or causes of any social phenomena in a systematic way (Bell and Bryman, 2007). According to Collis and Hussey (2003), positivism is founded on a belief that the study of human behaviour should be conducted in the same way as studies conducted in the natural sciences. Positivist research has a number of distinguishing features: it is deductive (theory tested by observation); it seeks to explain causal relationships between variables; it normally uses quantitative data; it employs controls to allow the testing of hypotheses, and finally, it uses a highly structured methodology to facilitate replication (Gill and Johnson, 2010).

In contrast, the phenomenological philosophy’s approach to research is one that believes that human behaviour is not as easily measured as phenomena in the natural sciences. The phenomenological idea is that reality is socially constructed rather than objectively determined (Easterby-Smith et al., 2012). Phenomenology is characterised by a focus on the meanings that research subjects attach to social phenomena, and an attempt by the researcher to understand what is happening and why. Such research would be mainly concerned with the context in which such events were taking place (Johnson and Onwuegbuzie, 2004). Thus, the study of a tiny sample of subjects may be more appropriate than a large number, as would be the case with the positivist approach. The phenomenological approach is more likely to work with qualitative data and use a variety of methods to collect them, in order to establish different views of phenomena (Easterby-Smith and Malina, 1999). The advantages and disadvantages of both

positivist and phenomenological philosophical approaches identified by Saunders et al. (2011) are described in Table 4.1 below.

Table 1 Advantages and disadvantages of Positivism and Phenomenology,

Source: Saunders et al. (2011) adapted by author.

	Positivism	Phenomenology
Advantages	Economical collection of large quantity of data	Enables understanding of how and why
	Clear theoretical focus research at outset	Enables researcher to be alive to changes which occur during research process
	Greater opportunity for researcher to retain control of research process	Good at understanding social processes
	Easily comparable data	
Disadvantages	Inflexible direction often cannot be changed once data collection has started	Data collection can be time consuming
	Weak at understanding social processes	Data analysis is difficult
	Often does not discover meanings people attach to social phenomena	Researcher has to live with the uncertainty that clear patterns may not emerge
		Generally perceived as less credible by ‘non-researchers’

5.3 Research Approach

Research philosophy can be considered as quantitative/qualitative and deductive/inductive; yet, it is important to note that these approaches have a significant relationship with each other (Riege, 2003). It is hard to talk about one of these approaches without referring to the other. However, in the following sections these approaches are reviewed separately. The positivist philosophy is normally associated with quantitative and deductive research (Riege, 2003). In contrast, phenomenological

inquiries are mainly associated with qualitative and inductive research. There are two main research approaches, induction and deduction

5.3.1 Deductive Research

Deductive research starts with the existing theories and concepts, and formulates hypotheses that are later tested with the help of empirical data (Gummesson, 2000). In practice, it means “testing the theories”. Deductive logic starts from one or more premises, which are assumptions that are widely accepted (truths). Reasoning then uses these premises as a base and proceeds logically toward conclusions that must also be true (Leedy and Ormrod, 2005b). The data collection is consequently made by theory and hypothesis. It is the theory that is frequently employed to lead and acknowledge the origin of the research questions and the collection of data and analysis (Bell and Bryman, 2007; Saunders, 2011).

The hypothesis is formulated in operational terms, which suggest a correlation between two or more ideas or variables. Moreover, the deductive approach is often connected with quantitative research (Saunders, 2011).

5.3.2 Inductive Research

Inductive research starts with the empirical data, and the result is the emergence of concepts, models, and eventually theories; inductive reasoning starts from specific observations and derives general conclusions from them (Walliman, 2005). In other words, a sample is observed and then a conclusion is drawn by the researcher about the population from which the sample comes (Leedy and Ormrod, 2005b).

According to Gill and Johnson (2010) the modern justification for adopting inductive research in the social sciences is that explanations of social phenomena are fairly useless

unless they are grounded in observation and experience (grounded theory). It is argued that, in contrast to the speculative and a priori nature of deductive theory, theory that inductively develops out of systematic empirical research tends to fit the data and, therefore, is more useful.

Saunders et al. (2010) argue that research should use the inductive approach where the researcher collects data and develop theory as a result of the data analysis, while the deductive approach is used where the researcher develops a theory, hypothesis (or hypotheses), and designs a research strategy to test the hypothesis. Deductive reasoning works from the more general to the more specific, whereas, the inductive reasoning works the other way round, moving from specific observations to broader generalisations and theories (Bryman and Bell, 2011).

The inductive approach is commonly-used in the social sciences (Saunders et al., 2009). In inductive research, researchers are expected to employ qualitative methods to collect data to obtain a wider understanding of a person or group's experience and view of phenomena (Easterby-Smith et al., 2012). Considering inductive research permits the researcher to obtain a closer and deeper understanding of the essence of person's connection to events, and enables a further flexible formation, which allows the researcher to perform modifications as the research proceeds (Saunders, 2011). To discover the views of the founders and next generations regarding succession and management in Saudi family businesses, it is crucial to realise that there are various interpretations in the real experience. Therefore, to achieve the goal of this study, an inductive approach will be employed. The researcher did not form any theory or develop a hypothesis at the beginning of his research but alternatively, reviewed the literature relevant to the study and made comparisons across it to discover patterns which would result in meeting the research objectives and answering the research questions. This

refer to that the researcher is attempting to understand the family business succession and the factors that influence the business continuity in Saudi Arabia.

5.4 Research Types

Research design is characterised under three types which depend on the research purpose: exploratory, descriptive or explanatory research (Robson, 1993; Saunders et al., 2011; Yin, 2014). Research design is the ‘blueprint’ that facilitates the researcher to come up with clarifications of potential problems and acts as regulation in several stages of a research study (Yin, 2011). In fact, as Robson (1993) points out, the purpose of an enquiry may alter over time, which means a study might contain more than one purpose. More details about these purposes and types are given below.

5.4.1 Exploratory Research

Exploratory research studies attempt to shape images of complicated conditions or phenomena that are unexplored in the literature (Marshall and Rossman, 2010). Thus, exploratory studies are frequently implemented in order to simplify the nature of ambiguous problems. According to Yin (2014), exploratory study means a study of a new phenomenon.

Saunders et al. (2011) suggest three ways of conducting exploratory research: firstly, search of the literature, secondly talking to experts on the subject, and thirdly conducting focus group interviews. Moreover, exploratory research is characterised by formulating problems more precisely, clarifying concepts, gathering explanations, gaining insight, eliminating impractical ideas, and forming hypotheses, although it does not seek to test them.

5.4.2 Descriptive Research

The aim of descriptive research is “to portray an accurate profile of persons, events or situations” (Robson, 1993, p. 4). This may be an addition to a piece of exploratory research. It is necessary to have a clear picture of the phenomena on which you wish to collect data prior to their collection. Dane (1990) claims that descriptive research involves examining a phenomenon to define it more fully or to differentiate it from other phenomena. Furthermore, he states that descriptive research involves attempts to define or measure a particular phenomenon, usually by attempting to estimate the strength or intensity of behaviour, or the relationship between two behaviours (Dane, 1990). As opposed to exploratory research, descriptive research should define questions, people surveyed, and the method of analysis prior to beginning data collection. In other words, the who, what, where, when, why, and how aspects of the research should be defined. Such preparation allows one the opportunity to make any required changes before the process of data collection has begun (Saunders, 2011).

5.4.3 Explanatory Research

Explanatory studies are useful when research is aiming to establish casual relationships between variables (Robson, 1993; Saunders et al., 2011; Yin, 2011). Therefore, explanatory studies are sometimes called “causal studies”. In addition, Yin (2014) notes that in explanatory studies, questions deal with operational links, which need to be traced over time.

Conducting an explanatory research study requires a well-defined research problem and hypotheses which need to be tested. In addition, explanatory research is used regularly within areas where extensive research has already been done (Creswell, 2012).

According to Saunders et al. (2012), rationale for exploratory research design is supposed to be the most suitable and beneficial approach for new research, delivering a notable contribution to understanding the findings of the principal research problem. Accordingly, as there is limited previous knowledge about the family business in Saudi Arabia and based on the object of this study, this research can be categorised as exploratory, as it is undertaken with an exploratory view. The exploratory research approach has been used to describe the nature of the family business in the Saudi context and also the factors that influence the succession and the continuity of this type of company.

5.5 Research Strategy

Research strategy is one of the components of research methodology, which is the structure of clearly articulated rules and processes on which research is based and against which claims for knowledge are appraised. Research methodology is about the principles and procedures of logical thought processes which are applied to a scientific investigation (Creswell, 2012). While method concerns the techniques which are available and those which are actually employed in a research project (Fellows and Liu, 2009). Additionally, research methodology should cover sampling design, research design, data collection, data analysis, and the limitations or constraints that the research faced (Cooper and Schindler, 1998). The most significant consideration when designing research is selecting the research type. It has been standard practice to divide research methods into two types of research strategy: quantitative and qualitative research (Bell and Bryman, 2007; Blaikie, 2009). Nevertheless, the selection of qualitative or quantitative methods depends on the researcher's view, philosophy, approach, and strategy in the research, because the selection of the research strategy, design, and

method will be led by the research questions and objectives of the study (Blaikie, 2009; Bell, 2010; Bryman, 2012). The choice will accordingly be determined by the need to achieve the desired goals (Saunders, 2011).

5.5.1 Quantitative

According to Creswell (2003), research can be considered under two different categories: qualitative and quantitative research. Quantitative research is the method that is mainly pursued to show information statistically. Quantitative research is defined as '*a research strategy that emphasises quantification in the collection and analysis of data*' (Bryman, 2012, p.35). In quantitative research studies, the researchers, as subjects, are detached from the objects of investigation (Creswell et al., 2003). Quantitative research is concerned with the problems of assessment and analysis of associations amongst particular variables and on simple procedures. Essentially, quantitative research provides the researchers with narrow, but nonetheless solid and generalisable outcomes (Gill and Johnson, 2010).

According to Bryman and Bell (2007) and Bryman (2012), quantitative research is mainly favoured when the data requires a deductive approach, which also includes the practices and norms of the natural science basis, especially positivism, and represents a picture of social reality.

5.5.2 Qualitative

Qualitative research is defined, as '*a research strategy that usually emphasises words rather than quantification in the collection and analysis of data*' (Bryman, 2012, p. 36). Bryman (2012) explains that qualitative research can be related to description as well as explanation by asking "Why?" questions and by collecting comprehensive data about

the group or a phenomenon studied. Likewise, it helps researchers to understand the behaviours of members of a group in the particular background in which they function. Also, a qualitative study can be appropriate for issues that are difficult or involved with progressions of modification, and also if the population is small (Bryman and Bell, 2011).

Qualitative research is often on a small scale and aims to obtain a richness of detail rather than statistical generalisations. Thus, qualitative methods concentrate on understanding the phenomenon under investigation by way of observation and involvement, rich description and emergent concepts and theories (Lee et al., 1999; Bryman and Bell, 2011; Maxwell, 2012). In brief, qualitative research is a method that involves collecting, analysing, and interpreting data by observing what people do and say. The collected data tend to be in their raw form, unstructured and detailed. Therefore, they need filtering, sorting and other forms of manipulation to ease their analysis (Creswell et al., 2003). Generally, the analysis of such data is more difficult than with quantitative data (Fellows and Liu, 2009).

In addition, subjectivity, flexibility, and lack of rigorous experimental control and determinism are mostly associated with qualitative data collection and analysis, which results in limiting their application to certain types of research. However, qualitative research has one great advantage over quantitative, which is the ability to add any necessary details or lacking data during and even after data collection (Bryman, 2012). It allows the researcher to follow leads that come into view.

The results can be personal and require interpretive and creative analysis. Therefore, there is a concern over its validity and its poor reliability (Charmaz, 2011). According to Lee (1992), one of the most fundamental distinctions often stated is that the quantitative approach is objective and the qualitative approach is subjective. Qualitative

research is concerned with observation, description and generation of hypotheses, as a contrast to positivist traditions (Lee, 1992).

Table 5.2 shows the distinguishing characteristics of quantitative and qualitative research (Leedy and Ormrod, 2005b).

Table 2 Distinguishing characteristics of quantitative and qualitative research
Source: Leedy and Ormrod, (2005, p.96)

Question	Quantitative	Qualitative
What is the purpose of the research?	To explain and predict To confirm and validate To test theory	To describe and explain To explore and interpret To build theory
What is the nature of the research process?	Focused Known variables Established guidelines Predetermined methods Somewhat context-free Detached view	Holistic Unknown variables Flexible guidelines Emergent methods Context-bound Personal view
What is the data like, and how is it collected?	Numeric data Representative, large sample Standardised instruments	Textual and/or image-based data Informative, small sample Loosely structured or no standardised observations and interviews
How is data analysed to determine its meaning?	Statistical analysis Stress on objectivity Deductive reasoning	Search for themes and categories Acknowledgement that analysis is subjective and potentially biased Inductive reasoning
How are the findings communicated?	Numbers Statistics, aggregated data Formal voice, scientific style	Words Narratives, individual quotes Personal voice, literary style

5.5.3 Rationale for Qualitative Research

The reason for adopting a qualitative research methodology in this study rests on several justifications derived from the above information about both research methods, as the criteria for selecting the appropriate method. Following Saunders et al. (2009), this research has applied a qualitative method because it is supposed to be the

appropriate method for leading exploratory and inductive research, laying importance on understanding the interpretations and responses of individuals and groups in the actual social environment, particularly when there are limited studies regarding the phenomenon under study. It is claimed that qualitative research is required for going into more depth about the subject under study (Saunders, 2011). For example, the subject is the family business succession in Saudi Arabia. The goal of this is to achieve a deeper understanding of the situation by studying the particular problem this study is seeking to investigate. Moreover, the qualitative method is supposed to be more adaptable, as the researcher can reconstruct questions to give various meanings, understanding and interpretation amongst informants (Bryman and Bell, 2011).

The researcher has chosen not to implement a quantitative approach in this study, due to the in-depth, realistic and exploratory nature of this research. Data will be gathered from a sample of several family businesses companies in Saudi Arabia, which requires interactions that can only be achieved through a qualitative approach. According to Sethi (1979, p.63) *'Socio-cultural and political phenomena, involving interactions among human beings and social institutions, are difficult to analyse in precise quantitative terms'*. Moreover, Yin (2009) states that the most appropriate methods to apply when analysing complicated phenomena are qualitative research methods. This study deals with sensitive issues and information on succession of generations in Saudi family business. This type of information can only be obtained through face-to-face interviews with a number of executives, to establish an environment to overcome the sensitivity of issues discussed. In other words, this research is not concerned with a large quantity of participating subjects; instead, it is looking for quality and insightfulness of a few expert decision makers in the private sector who are encountering and dealing with succession issues.

Researchers in the area of family business largely use a qualitative method. It is argued that qualitative approaches can be used as a tool to gain deeper understanding of the problems in a family business because the human dynamics involved in a family business could be adequately studied only with qualitative methodologies (Haberman and Danes, 2007). Moreover, the importance of such methods is the heterogeneity of the family business population, even if often treated as similar and routinely compared to non-family businesses. Family businesses are in fact even different amongst themselves (Melin and Nordqvist, 2007; Nordqvist et al., 2009).

Furthermore, due to the dearth of studies in the related family business literature concerning family business in the Middle Eastern region, and more particularly in the research context, Saudi Arabia, as discussed, it is necessary that this research is of an exploratory nature and adopting qualitative methods. It intends to clarify questions that study 'what' and 'how' questions encompassing the phenomenon (Yin, 2009).

Therefore, a qualitative research method is the most appropriate method for this study and that has been used because it aims to explore the importance of succession of family businesses in Saudi Arabia, the factors influencing the succession, the role of the founder and next generation in the succession process and to explore the reasons for success or failure of continuity.

5.5.4 Limitations to Qualitative Research

Although qualitative research suits this study more than quantitative research, there are some limitations to qualitative methodology, which should be considered.

The findings produced by qualitative research are limited and cannot be stretched to the wider population with any degree of certainty, in contrast with the findings from quantitative research (Bryman and Bell, 2011; Bryman, 2012). Nevertheless, the ability

to do this has been contradicted by some scholars. Certainly, some argue that qualitative research is not about generalising findings in the same way as quantitative studies, but rather intends to present trustworthy naturalistic data and to recognise issues that can present valuable insights into a distinct social phenomenon that quantitative methods might miss (Creswell, 2013).

An additional critique of the qualitative method is asserted to be its subjectivity. This relates to the fact that the findings and analysis depend massively on the researcher's often inconsistent opinions and their understanding of what they recognise to be significant within the research. They are also reliant on a private relationship between the researcher and persons investigated, which normally affects the findings and conclusions (Bryman, 2012). Certainly, while this feature enables the study to display the complexity of a distinct phenomenon, it can further generate bias at any or all points in the analysis and interpretation of the research process. Moreover, as a consequence of the subjectivity, there may be obstacles in replicating the same qualitative research because it is composed for a distinct context, and normally relies on the perception of the researchers themselves (Bryman, 2012).

Nevertheless, Hannabuss (1996) declares that, while qualitative methods can be criticised for lacking in control, mainly in interviews and case studies, their one principal advantage is that they explain deep perspectives of human and organisational properties that would otherwise remain hidden (Hannabuss, 1996).

Another limitation in qualitative research is supposed to be the uncertain interpretation of why a distinct research area, subject, approach, or method has been adopted. Moreover, the standards for choosing the individuals, the data pertains to in the context of the research and in expressing a conclusion (Bryman and Bell, 2011). However, in this study, to ensure clarity, the researcher demonstrates the reason behind the selection

of this research area, topic and method (Bryman, 2012). The qualitative method has been used in this study to answer the research questions and meet the research objectives of this study.

5.6 Data Collection and Research Methods

Research methods are chosen depending on the aims of the research, the research problem, or purpose, and the required format of the conclusions (Gill and Johnson, 2010). Classifying research approaches as quantitative or qualitative, ethnographic, survey, action research, or whatever, does not mean that selecting one of them restricts the researcher from adopting other research methods rather than the techniques usually associated with the selected approach (Bell, 2010). The research approach and the data collection method selected depend on the nature of the inquiry and the type of information required (Creswell, 2013).

Data collecting is influenced by the time available for the research. However, there are several methods that can be used in data collection, all of which depend on the researcher and the research itself (Bell, 2010). For example, observations, interviews and documents, or variants of these, can be used in qualitative data collection strategies. Quantitative data collection methods include questionnaires, tests and some form of structured interviews (Creswell, 2013). The main distinction between these two is that qualitative strategies produce narrative data, which are analysed using thematic analysis, whereas quantitative strategies use numeric data, which are analysed statistically (Creswell, 2013). There is a difference between data collection techniques in the degree to which they are predesigned and structured. However, quantitative techniques tend to be more structured and more predesigned, whereas qualitative questions are less detailed and specific (Teddlie and Tashakkori, 2009).

The following sections will explore some of the research methods that are commonly used in qualitative and quantitative research.

5.6.1 Interviews

“An interview is any person-to-person interaction between two or more individuals with a specific purpose in mind.” An interview is to obtain research-relevant information, and it is focused by the researcher on content specified by his or her objectives of systematic description, prediction, or exploration (Cannell and Khan, 1968, cited in Cohen and Manion, 1994). Moreover, interviewing is more suitable for complex situations and is useful for collecting in-depth information, as information can be supplemented and questions can be explained; interviews can also be used with any type of person: children, the illiterate or the very old (Cohen and Manion, 1994).

Qualitative interviews are a kind of data collection procedure within social research intended to capture several types of information, covering beliefs, values, attitudes, and behaviour. Thus, choosing qualitative interviews provides researchers with the opportunity to get in close touch with participants (Bryman, 2012). Saunders (2011) claims that principal advantage of the interview is that it provides the researchers with the capability to collect valid and reliable data related to the research questions and objectives.

An interview can be unstructured, where the interviewer has only a list of topics to be covered and the phrasing and sequencing of questions varies from interview to interview (Bryman and Bell, 2011). Moreover, it requires a great deal of time, if information is to be collected systematically, sometimes requiring several interviews with each of the different participants before a similar set of questions has been posed to each of the participants (Patton, 2005). In some cases, the interviewer has only one

starting question, and the rest of the questions emerge from the interview as it progresses. In contrast, structured interviews, where interviewees are presented with exactly the same questions, do not permit the interviewer to pursue topics or issues that were not anticipated when the interview schedule was written (Patton, 2005).

A semi-structured interview is a context in which the interviewer has a series of questions that are in the general form of an interview schedule but is able to vary the sequence of the questions. Usually, the interviewer also has some latitude to ask further questions in response to what are seen as significant replies (Bryman and Bell, 2011).

The semi-structured interview was used in this research to help with exploring the family businesses founders' and next generation's perceptions and experiences of succession planning and the related factors that could affect businesses continuity.

Answering the core question of this research was the criterion in choosing the most appropriate qualitative approach for this study. To fulfil this criterion and establish the fit between the research question and the research approach, semi-structured face-to-face interviews with a set of predetermined questions were carried out with a selected sample in the natural setting in Saudi Arabia.

The interviewing technique was employed in this research because it served the exploratory study, in seeking in-depth information about family businesses in Saudi Arabia. The latter issue involved obtaining information which was very sensitive to the interviewees in this study. Therefore, interviewing was the most appropriate approach. This could be achieved through a small sample of representatives from family businesses rather than focusing on a large scale population. Moreover, this qualitative research falls within the context of discovering possible barriers and challenges encountering family businesses succession in Saudi Arabia. Therefore, it was essential to prevent any possibility of misunderstanding of research questions that would be

asked, as the interviewer could either repeat or explain such questions in the spot which could only be accomplished through face-to-face interviewing.

However, as a flexible approach to this research, it is important to mention that as a result of using the interview technique and the information gathered from the interviews, new assumptions may evolve according to the findings, which may open other doors for further investigations. It may also involve complete redirection, or modification of, or additions to, existing ideas suggested by the research. It must be also noted that interviewing is time consuming and expensive, especially when it involves the researcher travelling and the selected sample taking valuable time off to participate in the interviews. An additional disadvantage of this technique comes from the interaction between the interviewer and respondents, which may affect the quality of data that depends on the interviewer quality. In addition, there is always a danger that bias may affect interviews (Bell, 2010).

For this research, interviews were conducted to collect data, as the interview allowed the researcher to obtain and analyse large amounts of contextual and important data, even though the data are subject to misunderstandings, which might lead to misinterpretations. These misunderstandings are due to the cultural background and the uniqueness of the Saudi culture. However, the researcher being a member of this culture and business environment will reduce the risk of such misconceptions.

Bryman and Bell (2007, p.474) described the semi-structured interviews thus:

The researcher has a list of questions on fairly specific topics to be covered, often referred to as an interview guide, but the interviewee has a great deal of leeway in how to reply. Questions may not follow on exactly in the way outlined on the schedule. Questions that are not included in the guide may be asked as the interviewer picks up on things said by interviewees. But, by and large, all of the questions will be asked and a similar wording will be used from interviewee to interviewee (ibid., p.474)

5.6.2 Survey

A survey is used on the basis of statistical sampling, to secure a sample which represents the full population, and is employed normally for economy and speed. Generally, the same questions are asked for the whole sample, in the same situations, as far as possible (Bell, 2010). Surveying research involves obtaining data about one or more groups of people by asking them questions and recording their answers. The purpose is to learn about a large population by surveying a representative sample of that population (Leedy and Ormrod, 2005b). The main problem with the survey method is the sample representation. In order to select a truly representative sample, the population characteristics that need to be represented in the sample should be considered, which will increase the confidence of the sample's representation (Bell, 2010).

The survey instrument was not considered method to use in this study because the sample selected needed to represent the family businesses founders and the next generation in Saudi Arabia. However, for this sort of sample, it would not be easy to reach a large number of such individuals in Saudi Arabia, because most of them have limited time to give.

5.6.3 Case Studies

A case study is an empirical inquiry that investigates a current phenomenon within its real life context, particularly when the boundaries between the phenomenon and context are not clearly evident. A case study as a research strategy comprises an all-encompassing method, including the logic of design, data collection techniques and particular data analysis approaches (Yin, 2014). It is used when the in-depth investigation of particular instances within the research subject is required (Fellows and Liu, 2009).

Case studies are usually bounded by time limits and activities, and a variety of data collection procedures are used. Although observations and interviews are the most commonly used methods for collecting data in case studies, all other methods can be used (Yin, 2014). The main advantage of the case study method is that it allows the researcher to focus on a particular instance or situation, and then identify the various interactive processes at work. Conversely, the case study method is criticised in that generalisation is not always possible and the value of the study of single events is questionable (Yin, 2014). It is argued that the findings from the case study can be generalised to other similar cases, while some researchers think that the reliability of the case study is more important than generalisability. However, case study can be considered like other methods, such as experiments, that are generalisable to theoretical propositions rather than populations or universes. Therefore, a case study does not represent a sample, and while conducting the case study the goal will be to expand and generalise theory (analytic generalisation), not to enumerate frequencies (statistical generalisation) (Bell, 2010). Another concern affecting the case study is the lack of rigour. Sometimes, researchers do not follow systematic procedures and use vague evidence or biased views to influence the direction of research findings. Bias influences case studies more frequently than other research methods, and is overcome less frequently (Bell, 2010). Finally, there is another complaint that case studies take too long and result in massive, unreadable documents, because of the confusion between the case study and the ethnography approach.

5.6.4 Sampling

In some cases, it is difficult to test the whole population under study; therefore, a representative sample of this population is selected for investigation. Sample selection

plays a crucial role in research validity and reliability. It should represent the whole population, to ensure research validation and accuracy. Becker (1998) argues that sampling is a major problem for any kind of research, in as much that we cannot study every case of whatever we are interested in. Basically, there are two types of sampling procedure – random and non-random. Random sampling gives the most reliable representation of the population, whilst a non-random sample depends on the researcher assessment, or on an accident, and cannot be used to make generalisations (Walliman, 2005). Bias should be avoided in sample selection, which can occur if, firstly, sampling is done by a non-random method under the influence of human choice, or secondly, the sampling frame list or other population records do not cover the population accurately and completely, or thirdly, a part of a sampling population cannot be reached or refuses to cooperate (Zikmund, 2003).

The process of selecting a sample from the total population saves time as well as financial and human resources, but the researcher does not find out characteristics of the population, only predictions or estimations. Therefore, there is a possibility of error. However, qualitative researchers can deliberately select cases – purposeful sampling – that are critical for the theories with which one begins the study or that one has subsequently developed (Zikmund, 2003). Therefore, the sampling method is chosen according to the objectives and scope of the study and the research method used, either quantitative or qualitative (Maxwell, 2012).

Polkinghorne (2005) argues that the experience of people is the area of study that qualitative methods aim to deal with. Qualitative inquiries focus on describing, understanding and clarifying human experience. For this unique nature of qualitative research, the samples are not selected with an objective of fulfilling the representativeness of the population but with an objective of collecting a series of

intense and full descriptions of the experience of the participant regarding the phenomenon studied (Polkinghorne, 2005). The qualitative researcher's concern is not how much data has been collected from how many sources, but how rich the descriptions are that have been collected about the experience, and because of that using the purposeful sampling is compatible with the objective of the present study (Polkinghorne, 2005).

Therefore, for this study the participants were selected purposefully. Selected participants were those with adequate knowledge about the business, the founder and the successor, and having had long-term involvement in the same business. Polkinghorne (2005) suggests that the researchers should select those as participants who have willingness to describe their experience to the researcher (Polkinghorne, 2005). Selective sampling was incorporated in this study from the private sector, targeting the family business companies in Saudi Arabia. As this study investigated perceptions and experiences of succession planning and the related factors that could affect businesses continuity, the selected participants were from different family businesses from different industries, such as manufacturing, retail, construction, leisure and travel, farming and food industries. The selected sample also included a number of founders who were the chief executive officer CEO of their company, and a number of next generation individuals from the family which owned and managed the businesses, and who were involved with and working in the company.

Table 3 shows the numbers of founders and next generation family members who participated in the data collection and the types of companies they represented in this study.

Table 3 The founders and next generation interviewees

Position			Company legal form	Industry	No. of generations involved in the company
The Founders	F1	CEO	Holding company – public and closed joint stock company	Wholesale and Retail sector	2
	F2	CEO	Holding company – public and closed joint stock company	Wholesale and Retail sector	2
	F3	CEO	Holding company – public and closed joint stock company	Petrochemicals industry	3
	F4	CEO	Closed joint stock company	Construction, Real estate and petrochemical	2
	F5	Partner	Closed joint stock company	Communication Technologies Oilfield Services	2
	F6	CEO	Limited liability company	Road construction and maintenance, Buildings general contracting	2
	F7	Retired	Closed joint stock company	Transport and logistics construction	3
The Next generation	NG1	Manager	Holding company – public and closed joint stock company	Wholesale and Retail sector	2
	NG2	Manager	Closed joint stock company	Construction, Real estate and petrochemical	2
	NG3	Manager	Closed joint stock company	Integrated solutions of technology	2
	NG4	Manager	Limited liability company	Road construction and maintenance, Buildings general contracting	2
	NG5	CEO	Closed joint stock company	Transport and logistics construction	2
	NG6	CEO	Closed joint stock company	Building Materials Co, Electrical Materials Co	2
	NG7	Manager	Closed joint stock company	Wholesale and retail trade in the building materials	3
	NG8	CEO	Closed joint stock company	Wholesale and retail trade	2

5.7 Research Design

The research design is the form and arrangement of investigation that permits the researcher to collect answers to the research question. The definition of research design will be considered as '*organizing research activity, including the collection of data, in ways that are most likely to achieve the research aims*' (Easterby and Smith et al., 2102,

p. 43). According to Yin (2014) research design is the plan for collecting, analysing and interpreting research observations. Therefore, to conduct an effective and successful study, it needs to determine the questions of the study, what data are appropriate, what data to collect and how to analyse the results. Thus, research design is a planned choice regarding the targeted data, collection methods, samples, and data analysis (Yin, 2011). The selection of a research design is managed according to the object of the study, the nature of investigation, the degree of researcher involvement, the stage of knowledge in the field, the time period over which the data is to be obtained and the kind of analysis to be carried out, whether quantitative or qualitative (Sekaran and Bougie, 2003). According to Sarantakos (2005), any research needs two primary phases: the first is the planning phase, in which the researcher creates the design and the plan of the research, and the second is the execution phase, in which the researcher gathers and analyses his or her data. Sarantakos (2005) summarises the principal objectives of the research design in the following points:

- To present the researcher with the primary structure for collecting and analysing his or her data and indicate the continuation of the research process.
- To give a systematic approach to the research process, thus confirming that all phases of the study will be addressed and that they will be performed in the right order.
- To specify the steps of the research design clearly, permitting the researchers to predict and counter eventual errors, bias and distortions (Sarantakos, 2005, p. 106).

Babbie (2004) claims that if the researchers explicitly define what they want to find out and adopt the proper research design, they will be able to reach their objectives (Babbie, 2004). The qualitative approach selected in this study helps to produce insightful

information to understand the nature of the family business in Saudi Arabia and identify the succession process in the Saudi context. Thus, the qualitative approach was intended to promote deep understanding of the factors that influence the family business continuity and also to explore the nature of the next generation preparation plans adopted in the Saudi family companies in Saudi Arabia. On this basis, the research design selected for this study involved the following stages:

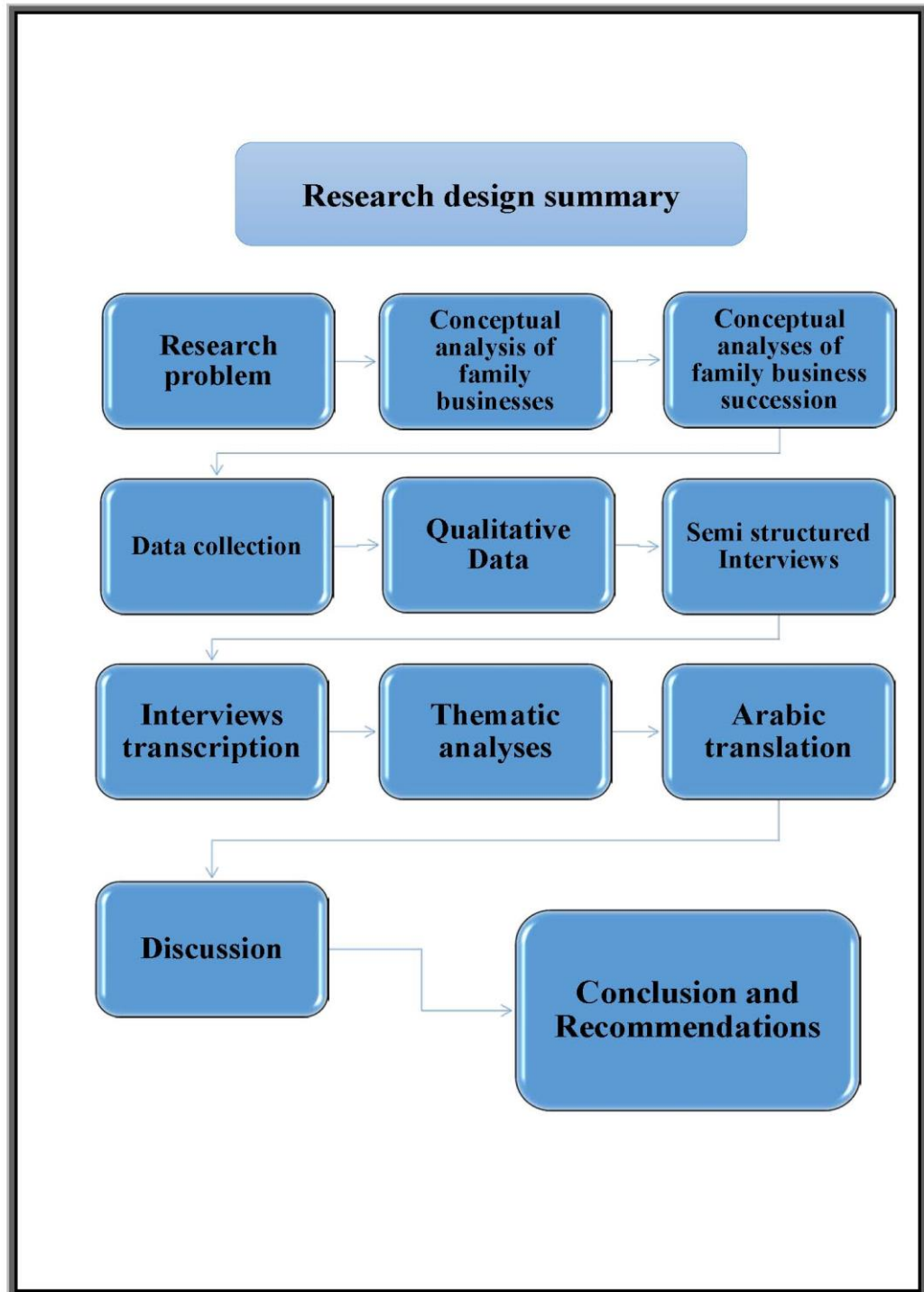


Figure 4.2 Research design

Source: the researcher

5.8 Data Collection

The trip for data collection to Saudi Arabia started in August 2013 and continued until October 2013. Fifteen interviews were conducted with seven founders' eight members of next generations from the family business. The selection of participants in this interviewing process represented and achieved the uniqueness intended for this research. In other words, the sample interviewed included founders' generations with solid experience and practice and the members of the next generation with ambition and motivation to success, which are tools to deepen the understanding of the collected data for this research. The interviewed participants represented different industries and sectors, such as manufacturing, services, distribution, retail, leisure and food.

All interviews were semi-structured in nature and face-to-face and tape-recorded and were conducted individually with a total of fifteen Saudi family businesses founders and next generation member. The conducted interviews required on average between 55 minutes to 70 minutes of open-ended questions, which were then transcribed to paper format. All of the interviews were in Arabic, which was then translated into English by a recognised translation services agency. The interviews took place in two different cities in the Kingdom, Riyadh, and Dammam and were conducted in the offices of the founders and the next generation members. However, some next generation members preferred to meet outside their family companies, such as in hotels.

In the fieldwork, the principal difficulty confronting the researcher was to gain access to the family business company. Further challenges included being able to manage the interviews. A unique challenge confronting the researcher in Saudi Arabia was the obstacle of travelling and meeting the founders and the next generation of the well-known family business. As a part of the time to collect the data was in the holy month of Ramadan, when the participants were fasting (no food or drink allowed) for around

17 hours each day, as a part of their Islamic belief. Moreover, it was summertime, when the temperature reached 50 degrees C, so the participants reduce their activities and limit their business meetings and devote most of their time to their family. The following month was the summer holiday and reaching the participants was difficult because they were away on holiday at most times, and this was challenging regarding finding the most suitable times in their full schedules. This caused considerable delays to the research process.

5.9 Data Analysis

The ‘Ad Hoc Meaning Generation’ technique, suggested by (Kvale and Brinkmann, 2009) was used for data analysis. Such a technique advocates the implementation of individual and/or a combination of different reporting and analysis tactics. These tactics range from descriptive to explanatory and from concrete to more conceptual and abstract. They are (1) noting patterns or themes, (2) seeing plausibility, (3) clustering of “what goes with what”, (4) making metaphors to achieve more integration among diverse pieces of data, (5) counting the number of agreements or disagreements, (6) making contrasts/comparisons to sharpen the understanding of interviewees’ responses, (7) partitioning variables to differentiate between responses, (8) subsuming particulars under the general, to see responses and their relationships more abstractly, (9) factoring to establish an analogue to a familiar quantitative technique, (10) noting relations between variables, (11) finding intervening variables, (12) building a logical chain of evidence to systematically assemble a set of coherent understandable data, and (13) making conceptual/theoretical coherence (Kvale and Brinkmann, 2009).

The selection of Kvale and Brinkmann’s (2009) model for this study was due the freedom it provided in selecting from its alternative tactics that allowed establishing

coherent relationships between the huge amount of qualitative data obtained in this research. These tactics, for example, allowed the researcher to establish the common themes which this research is aiming for from direct quotations that involved similar and intervening responses from participants. They also allowed counting of the number of agreements and/or disagreements of participants within each theme, to indicate different variables, which are discussed in a clearer manner in the coming analysis chapter.

Reporting the data using Kvale and Brinkmann's (2009) model included re-reading the interview transcripts several times to become familiar with the data, and then attempting to identify the key concepts and the relations between them. The next stage involved cataloguing occurrences of these concepts in the data, noting the sources, how often they occur, and what level of confidence they provide.

The findings of this research, which will be reported in the next chapter, were developed from direct quotations of the interviewees. According to Kvale and Brinkmann's (2009) tactics, this reporting evolved around a number of themes that were generated from connecting the dialogues of the interviewees' direct quotations on family businesses issues, including succession. In doing so, the researcher examined the responses, looking for similar concepts, words and/even expressions that could fit together to generate a general theme. For example, the researcher looked for phrases such as 'problems encountering succession', 'next generation preparation, and so forth, to fit within a theme that would be discussed regarding the obstacles encountering family business succession in Saudi Arabia. Within this theme, the researcher also counted the agreements and disagreements among the responses on the major insights and perspectives provided.

This analysis technique gave the possibility for the researcher to look at the data on a more abstract level and from different points of view, since it is allowing the possibility to look into the interview material as a whole. There is a freer interplay of different techniques during the process of analysis. When analysing the themes, the researcher could use counting, and in other cases comparisons, between variables. This meaning generation technique provides a good possibility to find out the real and deeper meaning of the data, since no structure is harming the freedom of analysis.

The analysis of the current findings, once grouped into themes, was interpretively analysed in connection to the issues of the research. The emphasis at this stage was on evaluating the empirical data with established literature to fulfil the research objectives and to extract the real meaning from the interviews.

5.10 Reliability and Validity

The discussion of quality in qualitative research started from concerns about validity and reliability in the quantitative tradition, which involved finding new terms to replace words such as validity and reliability, to reflect qualitative conceptions (Johnson and Onwuegbuzie, 2004).

According to Patton (2005) there are two factors which any qualitative researcher should be concerned about while designing a study: analysing results and judging the quality of the study. This corresponds to the question *“how can an inquirer persuade his or her audiences that the research findings of an inquiry are worth paying attention to?”* (Guba and Lincoln, 1994). To answer, Healy and Perry (2000) suggest that the quality of a study in each paradigm should be judged by its own paradigm’s terms. For example, while the terms Reliability and Validity are essential criteria for quality in quantitative paradigms, but in qualitative paradigms, the terms Credibility, Neutrality

or Conformability, Consistency or Dependability, and Applicability or Transferability are to be the essential criteria for quality (Healy and Perry, 2000). To be more specific regarding the term reliability in qualitative research, Lincoln and Guba (1985: 300) use “dependability”, in qualitative research, which closely corresponds to the notion of “reliability” in quantitative research. Similarly, Seale (1999) endorses the concept of dependability with the concept of consistency or reliability in qualitative research (Seale, 1999). The consistency of data will be achieved when the steps of the research are verified through examination of such items as raw data, data reduction products, and process notes (Campbell et al., 1999).

To ensure reliability and validity in qualitative research, the examination of trustworthiness is crucial. Seale (1999, p. 266) states that the “trustworthiness of a research report lies at the heart of issues conventionally discussed as validity and reliability”. previously Lincoln and Guba (1985) also suggested that the idea of discovering truth through measure of reliability and validity should be replaced by the idea of trustworthiness. Moreover, it is argued that sustaining the trustworthiness of a research report depends on the issues quantitatively discussed as validity and reliability (Lincoln and Guba, 1985; Seale, 1999).

To establish such trustworthiness, this research will be seeking understanding of the constructed realities as interpreted by the selected founders and next generation members of family businesses in Saudi Arabia who are familiar with succession issues and its related factors. Their contributions and interpretations evolving from the field regarding these issues, which are the core of this study, are essential to provide trustworthy, valid and practical results from the Saudi environment. This dependency on human subjects’ interpretations demonstrates the fact that validity of qualitative research depends on a reality that is based on multiple sets of mental constructions of

the human beings (Merriam, 1998). However, it is not the intension of this research to identify the laws of human behaviour in order to achieve reliability but it is to attempt to understand the realities and experiences of Saudi family businesses members in preparing the business to achieve successful continuity in future.

5.11 Ethical Issues

Ethical issues were recognised by the researcher throughout the complete research process in relation to research design, data collection and analysis. The most important problems and concerns that the researcher had to respect and address were notifying the participants in detail about their involvement in the research (the covering letter included this information and it was explained personally before conducting the interview), avoiding harm and risk, enabling free choice, and ensuring privacy and confidentiality.

All these issues were discussed explicitly by the researcher in the ethical approval application submitted to the University of Abertay - Dundee Business School, UK. The researcher described how the participants would be notified about the research and how the data would be gathered. Moreover, assurances for avoiding any harm and risk to the researcher and the participants during the data collection and analysis process were given, and the free choice of departing from the study at any time was confirmed. Furthermore, the ways of assuring privacy, confidentiality and anonymity of the respondents during the data collection and analysis process were presented in the ethical application form. As a result, all the collected data continued confidentially. Moreover, the researcher clearly described the purpose of the research in the interview covering letter. Meanwhile, in the data analysis stage, the researcher had to sustain objectivity, to ensure that there was no misunderstanding of the data that had been collected. Lack

of objectivity at this stage would damage the conclusions and any sequence of work that may result from the study (Saunders et al., 2007).

5.12 Summary

To sum up, this chapter has reviewed the qualitative research strategy chosen which will enable the researcher to fulfil the core objectives of this research. It also described the research sample and the criteria of selecting participants for this study and the intended data-gathering technique. In addition, it provided a descriptive insight of the experience of data gathering in Saudi Arabia, to benefit future academic efforts to overcome some of the obstacles experienced in this research. The chapter also presented the data reporting technique that will be implemented in the following chapter. Finally, it introduced the technique to be used in the analysis chapter of this thesis to analyse the findings of the interviews conducted in Saudi Arabia.

CHAPTER SIX

The Research Findings

6 The Research Findings

6.1 Introduction

This chapter presents the findings of the research for this thesis. The main objective of this study was to investigate the role of succession in the continuity of Saudi Arabian family businesses. This includes the role of the founder and the next generation, and the impact of a preparation plan upon the ability of the next generation to join the family business, and take over the management. In order to achieve this, interviews were conducted with fifteen founders of family businesses and their affiliated next generations in Saudi Arabia. The participants' names have been omitted to prevent any possible harm that may be produced from the interpretations of their statements. This has allowed more opportunities for interpretation and understanding, and fewer limitations when dealing with the statements that may exist in some cultures between the researcher and those in high positions in the family businesses of Saudi Arabia. Abbreviations are used for the two categories of the participants: "F" for founders and "NG" for the associated next generations (see Table 3). Every member of these categories has been given a number so that the researcher is aware who the statement belongs to. There will be no discussion, only narrative, in this chapter, as discussion will be presented in the next chapter. This allows the researcher to arrange all the statements together in one place and analyse them accordingly.

The findings have been classified into three main themes to clarify the insights of the different interviewees. The evolving themes from the interviews are reflected in the questions that stimulated them in the first place. The themes are:

Theme 1: The impact of succession plan upon the continuity of the family business.

Theme 2: The elements of the preparation plan for the next generation to join the family business.

Theme 3: The factors that influence the successor to continue working in the family business.

The findings in relation to each one of these themes are studied and analysed in the next three sections.

6.2 Theme 1: The Impact of Succession Plan upon the Continuity of the Family Business

The analysis of the research data in relation to the impact of succession plan upon the continuity of the family business found that the management of succession can be problematic in the Saudi context. In response to the question: How is the transfer of power and leadership to the new generations of the family prepared and executed? the owners of family businesses have concerns regarding the possibility of discontinuity of their businesses, based on their experiences and observations of other family companies in Saudi Arabia. Many founders of family businesses considered the succession plan as an important tool to enable their companies to continue in the future. These owners have the responsibility in managing and directing this transition. Interestingly, it appeared from the analysis of the responses that most of the participants consider the path of succession as involving the legal transformation of family companies from being limited companies to public or closed Joint Stock Companies (see Appendix D). For example, the founder of the largest Computer Peripherals and Software Company with 36 branches across the Middle East, employing over 3000 employees, introduces this idea of transformation to a public Joint Stock Company as the only possible path for succession. He said:

Transforming the family business into a Joint Stock Company is an important action to avoid potential future conflicts between members of a new generation, especially when founders prepare this plan. We have seen such conflicts between children of the founders of some Saudi family companies, which have led to collapse ... [F1].

This point was supported by another participant, who believed that if a board of directors exists it will maintain continuity in the future, because transformation into a Joint Stock Company may prevent the discontinuity of family businesses. He explained from experience:

We transformed one of our companies into a joint stock company in which the Board of Directors took the responsibility of its management. We believe that this decision will keep our company from going into discontinuity as we have observed... [F2].

A succession plan is an important tool that gives a vision for the leaders about keeping their business in the future and also as a strategy to develop their company. In response to the question on how important the succession plan to the continuity of the family business is and why, a founder of specializing in Information and Communication Technologies Oilfield Services and Renewable Energy Construction and Infrastructure, agreed that a succession plan provides greater protection and flexibility of this transformation. He said:

The plan protects the company from collapse and contributes to its growth. Adopting a plan can help to avoid mistakes, whilst seizing opportunities and expanding business activities. This sort of flexibility may encourage others to join the company or run business with it. At the end, we expand and progress... [F5].

Another respondent, of 94 years old, the founder of a transport, logistics, construction, and contracting company, now a closed joint stock company, also stated to deal with the problem of family business continuity and succession as a path to survival. From his experience and observation of other family-owned companies in the private sector

in Saudi Arabia, he clarified how this role may ease stakeholders' entrance to and exit from the company. He explained:

Succession controls the future work of the company. It clarifies the roles of joining and leaving the business. The Board of Directors has the authority to enact procedures through which the shareholder can sell his/her shares exclusively to the company... [F7].

Succession planning is vital due to the huge number of sons and grandsons in family business companies in Saudi Arabia, in comparison to western family business companies, which usually comprise two to five members. For example, in response to the questions: Do you have a systematic and declared succession plan? When did you think about it? For what reasons? a second generation CEO of a closed joint stock company of transport, logistics, construction, and contracting replied:

The existence of succession planning is essential at present. This is because of the huge family size in Saudi Arabia, and the diversity of members' thoughts and opinions. In addition to the children of the founder, there are sons-in-law and brothers-in-law who have influence on family decisions. This includes impact upon the decisions of daughters and sisters of the founder. We try to minimise conflicts and prepare an action plan for business continuity.

The large size of these Saudi families is considered as a major obstacle they face at present time in comparison to American or European families where the number of business owners ranges between 2-5 people ...[NG5].

One participant was the second generation manager of a public joint stock company with 90 million shares. The company trades in office and school supplies, children's toys and educational aids, Arabic and English books and publications. He considered that the lack of a proper succession plan causes or leads a founder to deal with the new generation with suspicion and discomfort, which could cause future ambiguity for the next generation regarding their career progress. In turn, this could lead to a collapse in the business. He stated:

The lack of awareness and creation of an appropriate succession plan by family business founders has made them hesitate to offer me a role in the management

of the company. It seems that they do not know how to deal with me. Therefore, they attempt to avoid offering me a chance for work and learning. The work environment is cautious, suspicious and prone to distrust, despite that I have a degree, am qualified and I have three years of work experience in a bank. Nevertheless, they deal with me as an ordinary employee of the company, however without any authority or tasks. I feel that they are ignoring my presence so that the employees of the business recognise that I am useless although I am part of the family of the company. The future is not clear for me; I do not know what they want specifically from me. Having said that, surprisingly, I am the first one among the new generation who works in the company... [NG1].

In response to the same question, another member of the next generation (a second generation manager in a Saudi-wide company of integrated technology solutions for business development and work in the medical field) replied that there is an absence of succession plans in Saudi family firms, which in turn makes them interact in a non-systematic way, which cannot guarantee future continuity. He said:

Work assignments and salaries are distributed equally between the family's children without recognition for those who have experience and proper qualifications. The founders do not provide new ideas or solutions for possible future conflicts between new generations, which is likely to lead to the collapse of their companies ... [NG3].

He clarified this point with a practical example of the importance of succession planning and the drawbacks of the absence of such planning by saying:

A company owned by three brothers distributed their activities in the three main towns/regions in Saudi Arabia: Jeddah, Riyadh and Dammam. From my point of view this manner of division in three places was not correct. I believe that one single company; a single entity, no matter in how different regions, should be managed as an investment. This type of division, which is politically oriented, emphasises that founders still manage their companies in a manner that family members' interests come before business interests. This could be fine at present but in the future many challenges and problems may arise, especially when we experience a family expanding and a new generation who have the interest to take a place in their business' management ... [NG3].

The analysis of the statements leads to the assertion that there is a problem in managing the continuity of Saudi family businesses because of the lack of succession planning.

This results in the next generation having an unclear vision about their future career.

However, some participants advocated the positive existence of succession planning, which gives the company the ability to seize business opportunities and for development. Others mentioned that the succession plan is vital to the Saudi family business because of the huge size of the Saudi families, which requires internal regulation to manage their relationship to the company.

6.3 Succession Process in Saudi Family Business

Interestingly, both the founders and the next generation agreed that the only way to succession planning is to transform the family company from being a limited company to a public or closed Joint Stock Company.

6.3.1 The Founder's Awareness of developing the Succession Plan

All the participants insisted that the succession plan should be carried out by the founders, and that this depends on their awareness of their responsibility towards this plan, which includes successor development, selection, and the regulation that controls joining the business and career path and compensation. For example, in response to the question: What are the reasons for the success and continuity of Saudi family businesses? A member of the next generation, who work in a group of companies distributing electronic appliances, with its own investment and real estate division, said for a successful family business in Jeddah, the founder has to have a direct responsibility for the succession and continuity plan, which is reflected in sharing various forms of experience that can benefit his children to improve their skills in terms of communication, problem solving and increase their knowledge regarding his business. He explained:

I think the founder should have a vision on how to prepare a plan that ensures continuity. He should convey this vision to his children: encourage them to work

as a team, maintain good communication between them and train them to solve work problems while he supervises them. The founder is considered as a safety valve for the company. It is true that the founder has control of the company. However, if he allows his children to take part in the management of the company and helps them to overcome mistakes and teaches them how to take proper decisions regarding the business of the company, this in turn would be very beneficial for the children as training for the future ... [NG8].

Another participant among the next generation, an engineer working as a second generation manager in a large leading construction, building materials, real estate and petrochemical company in the eastern region, said that the fruit of the founder's awareness and interest in preparing the succession plan is that he becomes reassured that his business will continue to grow and he will see the achievement of his efforts. The existence of a succession plan prompts the founder to accommodate the children of the family in his/her company and offers them opportunities to take more responsibility in the business. He, therefore, stated:

From my point of view, the founder is always worried about the company. He does not want to see his business, his dream collapse. Consequently, the founder works hard to avoid internal conflicts between family members. He always favours the public interest rather than self-interest. Hence, our new investments should take into account that new projects should offer career opportunities for the children of the family ... [NG2].

Furthermore, in response to the question on: How is the transfer of power and leadership to the new generations of the family prepared and executed? the founder of some joint stock companies investing in steel, air conditioning, plastics, chemicals, petrochemicals, energy, shipbuilding and ship repair and services, with over 12000 employees, expressed his awareness of preparing succession. He said that the practical side of the implementation of the succession plan can be in the form of the development of the successive generations of the family's children. This is considered as the main part of the task of the founders, who should work hard to prepare the next generation to

join the company. He explained further, from experience, what happened in his company, stating:

What we have done is that we focused on the training and preparation of 70% of the first generation, and then we concentrated on the preparation of 90% of the second generation. At present, we are working on the development of the third generation. Currently, most of the second generation is running our company, and they are members of the Board of the Directors ... [F3].

The intention of the founder to keep his business in the hands of his family in the future as one of his objectives and the business standing successfully without him in the future is explained in the next statements, in response to the questions: How important is the succession plan to the continuity of the family business? and Why? For example:

The most important goal is that we should maintain the continuity of our company with the presence and power of the founder, with or without the founder... [F1].

He added: *I started the preparation of my succession plan in 1998, and I put it into action in 1999. By that time my company was reorganized into a public joint - stock company and part of the shares were sold to shareholders. Currently, the company's owners possess only 53%... [F1].*

Another founder, who has a large leading construction, building materials, real estate and petrochemical company in Dammam, also believes that the founder has the main responsibility for preparation of the succession plan to ensure the continuity of the business. He explained that, when the founder shows no interest in fulfilling this responsibility, many problems begin to arise. Then he stated:

I am telling you that, from my point of view, 90% of founders do not put the succession plan into process before they die. Most of the time, the children work on the plan after the death of the founder, and for this reason conflicts arise and significant challenges occur... [F4].

Some founders have a lack of awareness of the importance of the succession plan and the way to achieve it for the benefit of the company. For example, they do not attract non-family professional employees from outside of the company nor join a successful joint-stock company, as supportive factors that can lead to a successful succession. This

is because the founder pays his main attention to the growth of his wealth rather than focusing on the future continuity of the business. In response to the question: How important is the succession plan to the continuity of the family business and why? a respondent said:

Some founders lack awareness of the importance of a succession plan for their business, which may include the participation of managers from outside the family or the creation of a successful joint-stock company to ensure continuity. This is because the founders pay their main attention to the accumulation of their own wealth rather than focusing on the future continuity of their business.

I wonder why there is no Board of Directors and/or General Assembly who are not heeded. What is the problem that causes the founder not to set up a General Assembly? Unfortunately, this mentality is still present today in family run businesses, which I think leads to negative actions against the family entity, against the entity of the company and its economic entity. This is reflected in the families' internal relationships, which may lead to serious damage to both family and company... [NG3]

A successful period for a founder's business may distract him from the pressing need to maintain the continuity of his business, which is why he will need to create a succession plan. For example, in response to the question: How important is the succession plan to the continuity of the family business and why? a founder of a construction and infrastructure company said:

There was a financial boom between 1970 and 1980 that created a considerable amount of wealth for companies in Saudi Arabia. This led some founders to the belief that there was no need for succession planning or thinking about it, and future continuity was guaranteed. However, after this period of financial boom faded, some companies collapsed whilst others faded into obscurity as a result of no proper succession planning ... [F6]

It can be deduced from the proceeding statements of the participants there is agreement that the responsibility of the founder and his/her awareness of the need of a succession plan are vital in implementing it.

The analysis of the statements above shows the important role of the founder of setting the succession plan of the family businesses in Saudi Arabia, which depends on the

degree of his/her awareness about this issue. Moreover, the founders' awareness of this succession gives him/her a vision about developing the next generation in terms of communication, work experience and managerial skills that are needed to lead the company in the future. However, the founder needs to have the intention of keeping the business in his/her family, which is reflected in his/her awareness about the need to reduce the problems that could face the family and business in the future by setting a succession plan. The participants mentioned that one of the drawbacks of an absence of the founders' awareness of the succession plan is not accepting opinions about the future development of the business nor attracting the professional people to help them lead the company. That is because being a successful business at a certain time prevents them from predicting the future.

6.3.2 The Success Factors of Saudi Family Business

In response to the question: What are the reasons for the success and continuity of Saudi family businesses? factors mentioned by the participants covered transforming the family business to be a joint stock company; separation of ownership from management; family founders' awareness of the importance of strategic planning; the preparation plan for the next generation, and the commitment to the ethical, moral, philanthropic and rules of the religion of Islam.

6.3.2.1 Transforming the family business to a public or closed Joint Stock Company

One of the participants pointed out that the legal form of the company to be a public joint stock company is the only survival procedure to maintain family business continuity. He stated:

Joint Stock Companies guarantee the continuity of these family companies because they can be traded on the stock market. The succession is done according to Sharia (Islamic) law by simple and clear procedures, which guarantee the succession process and thus the continuity of family companies ... [F1].

This shift to joint stock companies has attracted interest from other business leaders, creating a better reputation for the company, and having a positive impact on their businesses. In this aspect another founder of a public joint stock company with 90 million shares said:

Importantly, the company will continue its activity, where every one of the shareholders shows interest in the company. It is a challenge where transparency, professionalism and administration are necessary to preserve continuity in the business. Each shareholder can look at and analyse the company's activities and reports, assess the outcomes and compare its results with other companies. This would help shareholders in making their decision regarding the continuity in the market ... [F2].

Moreover, one of the founders asserted the importance of transforming the business into a closed joint stock company in order to achieve a smooth transition between family members to maintain a successful business, when he explained:

We are in the process of transformation into a closed joint stock company. We have consulted lawyers and jurists. I believe that this process is the only solution that will help in re-organizing our company from within, to accommodate a growing number of new-generation members and the income of the company. In addition, we need to face the aging of our founders and their plans to retire. We want to benefit from the facilities that are offered by the Ministry of Commerce to become a closed joint stock company... [F6].

Similarly, another founder argued that there is an important role for government agencies in managing the process of transforming the Saudi family companies into joint stock companies. He clarified this by saying:

Our country encourages family companies to transform into a joint stock company because it maintains continuity and protects it from collapse and thus protects the general economy of the country. Moreover, it makes money and wealth not be possessed by specific individuals, but the majority can share and benefit from the wealth through development and accountability...[F4].

Switching to a joint stock company has a positive impact upon the continuity of the family business in terms of financial transparency. According to founder (F1):

Targeting discipline and regulations are the main reasons to transform into a joint stock company...

Joint stock family companies like any other company in which they vote for the selection of the manager and the Board of Directors.

He added: it is more appropriate, as it is less expensive. It is clear for every individual that he/she has a certain amount of shares, thus he/she can make own decision regarding continuity with the company or sell their interest in the business ... [F1].

In Saudi Arabia, family businesses face lots of problems when changing into a joint stock company. The statement below asserts that the positive aspect of transformation of family businesses into joint stock companies is that deals it with many problems. A second generation CEO of one of the biggest Saudi trading groups in building and electrical materials, tools and hardware stated from experience that:

In 2005 we were among the first group of family companies that transformed into closed joint company. This, honestly, was a big positive action that done by the Commerce Minister; Abdullah Zainal, who stopped many strict regulations that were making the process of transformation difficult. I stress that, 90% of problems that were related to the succession and transforming the company into closed joint company can solve transition problem... [NG 6].

However, another next generation participant explained that in order to maintain the continuity of Saudi family business it should be transformed into public joint stock company, as the closed joint stock company will not achieve their survival. He added:

For a straightforward reason you cannot consider Azamil Company (a Saudi Arabian family company) as a family company because it is listed on the stock market. Only twenty per cent of family companies manage to maintain continuity when they are traded on the stock exchange. No matter the amount of conflicts that occur between the shareholders of the company; the Authority of the Money Market will solve these conflicts. These will include observers from the Ministry of Commerce. In addition to that, a director from outside the family is imposed by the regulations, which may be a benefit to solving conflicts.

However, it does not change much from the reality of the problem when we transform the family company into a closed joint stock. I don't think a person from outside of family members should be able to buy shares of the company if he is aware that there will be conflicts and disagreements between family

members. Therefore, I am convinced that family companies do not last more than the third generation... [NG3].

From the last statements of the participants it is shown that they were convinced that transforming the company to be a joint stock company will contribute to the success in the future by facilitating the succession between generations. However, most of the participants see transforming the legal form of the company as the way to succession. The next section will include opinions from the founders and their children about the separation of ownership from management as a success factor.

6.3.2.2 The Separation of Ownership from Management

In response to the question: What are the suitable methods (ways) for the succession process in Saudi family businesses, most of the participants agreed that the separation of ownership from management would be a success factor for their family business. For example, one of the founders corresponded the separation of ownership from management, as beneficial to manage the company properly, which could be reflected in a competitive advantage in the Saudi Arabian private sector. He said:

I did and still urge my brothers, the founders of the company that we must adopt and turn to institutional strategic action and separate the ownership from management. We should assign a specialist for the company who is qualified and professional to lead the company... [F5].

Similarly, another founder said:

The problems of managing the succession and the risks of discontinuation of the business were much less when we separated ownership from the management of the business. It is clear now that in order to maintain the continuity of the business it is a must that we separate ownership from the management of the family company... [F2].

Moreover, some participants referred to the positive impact of a separation of ownership from management upon development, transparency and achievement. For example, one founder stated:

The separation of ownership from management is very important. You should have an independent Board of Directors, independent executive directors, independent financial committees, an external audit and an internal audit. All these procedures/actions give you an integrated system for development...[F3].

And regarding the justice of this system, leading all family and non-family members to work in harmony as a fruit of this separation, he adds:

The separation of ownership from management means that we pay a salary for the company director even though he is a family member. This means that he gets a salary only if he fulfils the job tasks, even if he is one of the owners, and can be held accountable based on his achievements. For clarity, I think that even senior staff should know that they are at the same level and equal to other staff in terms of assessment, consultation, transparency, participation in making decisions and professional and management development... [F3].

It is also believed that the separation of ownership from management increases the competitiveness of the company in the market, especially if there is a lack of qualified family members who could lead the company. For example, a next generation member who has a group of companies involved in distributing appliances, and electronics, with its own investment and real estate division, said:

I think it is a must to separate ownership from management, whatever amount of capital the founder owns. It is not necessary to be an outstanding director; however, it is important to go for this separation. Practically, this separation ensures that the company takes a competitive position in the market and maintains continuity.

From my point of view, owners should look for the most qualified director to run the company. It is not necessary that this director be a family member or among the shareholders. We must work seriously to attract competent staff in order to maintain the continuity of the business... [NG8].

The importance of attracting distinguished leaders from outside the family members to lead the company was stressed by most of the founders. For example, one of the founders stated:

There should be leaders from outside of family members. Attracting these outsiders who are well qualified should increase the transparency and professionalism and the administrative capacity of the company. The second line of management of the company should include professionals who are assistants for senior managers. These assistants are the elite among the leaders and not

just normal managers. They must be leaders. The leader is a person who makes, creates and manages the group, while the director is completely a different person; he just fulfils the orders... [F1].

It can be seen from the above that the separation of ownership from management was agreed to have the benefits of increasing transparency and professionalism in selecting company managers and administrators. Moreover, it gives the chance to manage the family business through collective decision making rather than relying on individual decision making.

6.3.2.3 The Founder's Awareness and Willingness to adopt Strategic Planning

In response to the question: How is the transfer of power and leadership to the new generations of the family prepared and executed? participants highlighted the importance of conscious leadership, which sets the strategic planning of the family business as a priority and draws up the work plans that offer the company competitive capabilities. Also the leaders should be aware of the benefits using consultants and advisors to maintain their business. For example, the founder of a large company commented on the requirement of a system of modern management by using the scientific methods to benefit family businesses. He said:

We adopted a modern system of company management. It is true that this modern management was strengthened by the good interrelationship between family members but we made sure that this family relationship did not have a negative impact upon modern management, the separation of ownership from management, taking of strategic decisions, introducing a Board of Directors, external auditors, and independent executive management from the family or outside...[F3].

The idea of integration with successful joint stock companies was also mentioned by the participants, to support the continuity of Saudi family business. They argue it was

part of the awareness of strategic planning by the leaders of the company. For example, a founder stated:

We are conscious about the importance of continuity. For this reason, we put among the methods to maintain continuity the development through integration with other joint stock companies. This integration would help to achieve expansion and success. It is important to merge with successful strategic partners... [F5].

Similarly, the members of the next generation agreed that the role of fathers who are the founders of the family businesses is to work to improve harmony in family relationship, so that they deal with one another in a good and professional manner. For example, NG8's point of view was that this is beneficial in creating success and avoiding past mistakes. He said:

My father was a good leader, may God have mercy on him, founded the company and the roles that guarantee, God willing, the continuity of the company. His children understand each other in a good and professional manner. Thanks to God, as my father created this understanding environment between his children, which is then gradually applied at the work setting as well. The fruit of this environment was great as he saw his sons manage the work of the company to gain benefit from previous experiences of successful family companies, and to learn how to avoid mistakes by studying the factors that lead some companies to collapse... [NG8].

The above statement highlights the importance of the awareness of leaders of family companies and the importance of strategic planning to maintain the family business and a successful succession.

6.3.2.4 The next generation preparation plan

In response to the questions: Do you have a systematic and declared succession plan? When did you think about it? For what reasons? the majority of the respondents felt that an early preparation plan for the children of the founder to take over the management of the family business is very important and a success factor of the continuity of the family business. The participants highlighted an important issue that faces Saudi family

companies, which is the early preparation and training of their children (potential successors) to equip them with competences that make them able to take the future responsibilities of the company. For example, a member of the next generation highlighted the positive impact that his father's training had upon him, where he had received a good preparation since the early period of his life. He stated:

From my point of view good preparation can be achieved by allowing the children to become familiar with company work, teaching them about continuity, generosity, honesty and how to make efforts. I was working with my father from the age of fourteen. During the summer where I had a three months holiday I used to spend two months in the factories with my father, and I would spend the third month travelling (holiday). My father used to tell us: 'you must first spend time to work in the company in order to get some time for travelling'. We used this system since I was young... [NG4].

In regard to the preparation and training of the children, interviewees considered this as a vital role of the founder that needs to be strategically planned to maintain their business in the hands of their children. For example, a founder said:

I prepared my son since he was thirteen to take over the responsibility (of the business), and I trained him for this purpose. Now, he is the CEO of the company. I afford twenty-five per cent of our work time to teach my children and to educate them to gain better competences... [F7].

Moreover, another founder advised that positive values must be inculcated in children from an early age. Otherwise, he said, they are likely to have a weak sense of reliance, which is contrary to their forebears, as he explained:

Since an early age, this generation should learn discipline, respect and other such skills. Unfortunately, however, our society faces many societal problems due to the appearance of sudden wealth and the associated attitude of materialism. As a result of this, the new generations have weak self-reliance in comparison to the founders because they gained what they desired without effort. Our society is not aware of the importance of self-reliance, so we face problems with the new generations, as they are not ready to bear responsibility... [F6].

Interestingly, most of the next generation participants agreed that the role of the father in encouraging, motivating and preparing his children to adopt a high level of self-

reliance and to build their sense of responsibility, was important for the success and continuity of the family business. For example, a next generation member stated:

My father gave good attention to ethics and principles. He used to tell me that "if you dream to work with me, then you have to wake up!", "you cannot work with me only because you are my son; you must show that you have abilities and are ready to work with me". When I was a student at the college, he used to stress, "if you fail this means that we all failed, and if you succeed this means that we all succeed "... [NG1].

The above statements show the importance of preparing the next generation from an early age to join the family business. However, some participants argued that even if you prepare the next generation and their personality is not ready to bear the responsibility, they may be unable to lead the business. For instance, one of the founders made the point about the early preparation of children, indicating that it is not enough to ensure the succession and transition of the company to them. He said:

It is important that we prepare and train children for leadership. However, the most important point is that these children must be ready and willing to take over responsibility, which from my point of view, depends on their personality. We cannot force them to take power... [F2].

Similarly, another founder stated that it may be the case that a next generation may have many good aspects but they may still be unable to take the leadership of a business, even if they have received a good education and training. He stated:

It's not necessarily that good education, learning and training will directly produce for us a generation which is ready for work. If this new generation does not have willingness, competency and is ready for responsibility... [F4].

Moreover, a participant among the next generation provides an example, which shows how poor preparation of the children might cause the collapse of the company. He said:

There is, for example, a well-known joint-stock company, which has an issue today in the (legal) court. It is a huge company, which owns several factories and commercial agencies. Despite that this company was transformed into public joint stock and it is traded on the Capital Market Authority. However, it was, almost, completely destroyed when the second generation took over the

responsibility of the company. This is because, from my point of view, that this second generation was not prepared and unqualified to take over the responsibility of such a giant company... [NG5].

The importance of the preparation plan from an early stage for the founder's children to be the future source for the leadership of the company is essential for the continuity of the family business. This can ensure a smooth succession and would also fulfil the aspiration of the founders to keep their business in their family.

6.3.2.5 Commitment to Ethical Values and Islamic Morals and Legitimacy

In response to the question on the reasons for the success and continuity of Saudi family businesses, all the participants agreed that the commitment to religious morals and ethical values has a direct impact upon the continuity of Saudi family companies, through the application of *Sharia*, and avoiding forbidden deeds and suspicious financial transactions. They also indicated avoidance of cheating as an important aspect of religion and morality: serving the public interest rather than private interest, honesty and transparency. They noted the importance of philanthropy and charitable endowments, payment of legal obligations such as *Zakat*, and the avoidance of prohibited financial dealings such as usury (*Riba*). These two terms will be explained later in this theme. Moreover, respecting parents, giving to charity, keeping ties and good relationship with family, all have positive impacts upon the family business continuity, as mentioned by the participants. For instance, one of the participants among the next generation asserted the importance and the positive impact of ethics and dealing with others in a proper way upon the success of the family business. Commenting on the contribution of his religion to his attitude towards conducting business, he said:

In (the religion of) Islam, dealing with ethics and morals in trade and business are compulsory, with Muslims and non-Muslims alike. There is no difference between them at work or in trade. You can work in business, as you like except

you must avoid the things that are forbidden by God. Islam was spread by trade. The Muslim traders travelled to East Asia and dealt with people there with ethics and Islamic morals. This made the East Asian people respect and accept Islam. This religion was spread by such a method of trade, but not by the sword... [NG1].

Some participants highlighted the importance of good will and dealing with honesty and transparency, which are attributed to those who work in the family companies, and the need to work for long term goals, to ensure the interest of the family rather than their self-interest. For example, one of the founders said:

The good will, which includes altruism, honesty, and transparency with others, are considered among the reasons for success, as wherever you thought only about yourself you would lose and lose everyone in the long term... [F4].

Similarly, another founder stressed that qualities such as transparency and honesty in dealing with others would reduce conflicts between family members and encourage success and continuity in family business. He explained:

This means that you must be clear. If you do not deal with others with honesty and transparency this will end up that each person has a different direction and then conflicts will emerge... [F2].

In terms of ethical dealings and communication between family members, by adopting the principles, laws and teachings of Islam, one founder highlighted:

When we started our business we adopted honesty and transparency that were based on the Islamic framework which states that "No man is a true believer unless he desires for his brother that, which he desires for himself ". We are Muslims in a Muslim country, we follow the law of God in our dealings and that we have to be fair between our children, even if they are from different mothers. The continuity of this approach would result in a good environment that creates affection and understanding between all family members...[F1].

According to some participants, blessings, which are from their point of views a means to have more business opportunities and an increase in the profits, are considered as a positive reflection of the adoption of philanthropy and the charitable endowment on the continuation of the company. They pointed to the necessity of paying *Zakat*, as it blesses

the remaining money and thus contributes to obtaining new business opportunities and the growth of the remaining wealth. Paying *Zakat* is also reflected in the good reputation and prestige of the family and the company, at the same time. This in turn would induce social and commercial acceptance, and consequently the company becomes a desirable target for others to deal and work with. In this respect, the previous founder commented:

Of course, there is a spiritual relationship: blessing from God. If a human has a good intention and spend money on the charity, and pays Zakat, the Lord of the Worlds will fulfil his desire that his company will maintain continuity and develop; his children and family will be united. This is a spiritual outcome. If you try to explain this spiritual relationship to the West only religious people will understand this relationship and the concept in general. This spiritual relationship has a very strong link. Also, the role of blessing in the development of wealth: as it is stated on the Islamic saying « "The wealth of man will not diminish by charity" ... [F3].

Another participant said:

We established the Khalid Charitable Foundation, which has two sorts of activities: charitable and social works. God blesses your business and income when you spend in charity. Amazingly, the outcome of spending on charities can be noticed in our business, creating a lack of obstacles, gaining more tenders and other trade deals... [F4].

The payment of *Zakat*, in particular, is seen as a blessed activity that is a success factor for the growth of continuity of their family business. For instance, one of the business owners stated:

I always pay Zakat because it is an important issue according to the Sharia law. It is one of the reasons of my company's growth and blessing... [F6].

Another participant said:

Observing Sharia laws with regard to Zakat and money, and honouring one's parents are important issues that would impact upon the continuity of company through the blessing of God... [F5].

Both founders and members of the next generations stated the importance of qualities taught by their religion (Islam) to avoid dealing with prohibited financial transactions

such as bribery and usury. They believed that undertaking such activities would harm their businesses. The statement below describes an attitude to bribery:

We are honest in our work, we don't ask for bribery, we don't take into account the interest of an individual, and the most important thing is our work. We do not accept bribery in our business. Our work can only be fulfilled through honesty, trust, sincerity and good will. Because I only rely on them, we maintained the continuity of our company and, God willing, it will continue for generations to come... [F7].

Similarly, a respondent among the next generation stated that usury is a harmful thing and has a direct negative effect over the business, and as a Muslim they should avoid it. He said:

*I believe that young people can convince old people to change their opinions. There were some usurious loans in the company and we made a plan on how to convince old managers to abandon these loans. However, change requires time, effort and planning. After almost one year and a half we were able to rid ourselves from all usurious loans and issued a decision that not to use any usurious loans in the future... [NG3] He added:
You are talking about a company which deals with a huge amount of money. This decision affected us financially. However, because we fulfilled an Islamic injunction not to deal with usury we are sure that God will compensate us with blessing, more wealth, success and growth... [NG3].*

Moreover, most participants pointed to the positive impact upon the continuity of family business when they fulfil the ethical and moral values of Islam regarding the aspect of obedience of their parents, and keeping and observing ties of kinship.

Respondent F6 stated:

I believe that honouring one's parents is an important reason for success. My success is based on God's blessing and then the honouring of my mother. I believe that without the blessing of my mother I wouldn't have the wealth that I have now. Thanks to God, I am now comfortable and healthy. I was also good with my father until he died... [F6].

As far as the ties of kinship are concerned, the same participant said:

Always the company's success and blessing were in keeping the ties of kinship, and those we kept our brothers with us but not only as shareholders... [F6].

Similarly, the following participants agreed that keeping and observing ties of kinship lead to the continuity of the family business. The founder [F6] mentions his belief in one of the principles of Islam relating to upholding the ties of kinship, which will benefit his business, outlined in a saying of Prophet Muhammad, peace be upon him:

"Whoever would like his provision in this world to be increased and his life span to be extended let him uphold the ties of kinship." If he keeps the ties of kinship with poor and rich of family members, and shares with them some of his company products or from his money, consequently, there are no doubts that they will pray for him and for his business, which will attract God's blessings... [F6].

Moreover, another participant said that the moral interactions between the family members in Saudi family companies contributes to it and reduces conflicts between those members. He added that there would be difficult problems without moral interaction, but this is not the only solution, as he explained:

Despite that family conflicts are exacerbated, nevertheless, my uncles have good morals, they did not reach the stage of lying to each other, still there are some morals.... That there is respect and ethics. If there are no morals, I think my uncles would be in the courts, otherwise. But there is no guarantee that this respect and morals would last for long and extend to their children... [NG3].

It was generally agreed that philanthropy and charitable endowment contribute to delaying conflicts and solving problems. For example, a participant among the next generation said:

We hope that no conflicts would occur. However, there is no guarantee that this will not happen. Presently, we do not have conflicts, but I am worried that might happen in the future. I think that charitable activities bring together more than divide, dissolve differences and encourage more understanding...[NG2].

In summary, most of the participants indicated the importance of observing the financial commitments that are introduced by *Sharia* such as paying *Zakat* and avoiding bribery and usury, which has a positive impact upon the continuity of the family business in the future. Moreover, they mentioned the importance of honouring parents and keeping the

ties of kinship and helping them financially and dealing in business with honesty and transparency with all stakeholders.

6.3.3 The Factors that Caused Discontinuity/Failure of Saudi Family businesses.

The previous findings focused on the success factors of Saudi family business. However, the participants (founders and next generation) were also asked to explain the factors that they believed could cause the failure of a Saudi family business. These factors were solicited based on their experiences and observations from the cases around them and the environment of the private sector in which they had been operating. Identifying these factors would lead to an understanding of the nature of the succession where the participants introduced the causes and provided examples of some Saudi companies, which have collapsed and disappeared from the market.

According to the participants, the main factors that appeared to cause the collapse of some Saudi family companies are: the centralisation and autocratic management style of the founder and the lack of strategic collaboration; the weakness and/or lack of a preparation plan in place or where there is no ready successor, for any reason; the lack of corporate governance of Saudi family businesses; and the family business constitutions. In addition, it was mentioned that there are internal family conflicts, the absence of transparency between family members, and a weakness in moral leadership, where personal interest is put before that of the company.

Each of these factors is explained in some detail in the following paragraphs.

6.3.3.1 The Centralisation and Autocratic Management Style of the Founder

In response to a question on the suitable methods for the succession process in Saudi family businesses, most of the participants said there was a problem of centralisation of power in the hands of autocratic founders. For example, the owner and founder of a large technology company believed that there was a poor management style that could disincline a next generation from joining the business because they will feel constrained by the founder and have no clear career path. He stated:

The centralisation in business means that every single item, whether large or small, is in the control of the founder. Every decision will be made alone and there is important information about the business which is kept confidential with little or no transparency. This should be known by those who work with him. ... That the leaders and the professional managers will not work with a company that includes high levels of centralisation, even if they are paid more highly than other companies. Innovative leaders should be sought after by giving them more freedom to manage the business... [F1].

One of the founders agreed that centralisation has a negative impact and is the cause of failure in family businesses. He said:

When centralisation in a business is excessive and has a negative impact on the family business, it affects continuity in the future. It is the responsibility of the founder and that the centralised management style is from the first generation that founded the company... [F2].

The participants among the next generations were also adamant that the founder's centralised management style had a negative effect on their more highly to join the business. A participant said:

The centralisation of management is a style that was adopted by the founding father of the business; because of that the next generation feel that he does not trust them, and allows them little chance to carry out decision making in the business... [NG1].

Another respondent from the next generation also pointed out that centralisation in the family business was related to the decision making processes of the founder. He stated:

Centralisation is related to the decision making processes without giving the children of the family any chance to participate in making them... [NG2].

In response to this point, one of the founders explained:

Many founders are accustomed to an autocratic management style. In the past they were the only decision makers in their business but as time has changed a new management style is needed. This is to request and value the opinions of others, which will encourage a new generation to enter the business where they will feel unconstrained and appreciated. Such a founder should be ready to sacrifice his own opinion and to share decision making with others... [F6].

Another founder asserted that there was a greater chance of business continuity through mutual consultation and decision making between founders, next generations and all family members. He said:

I am the one who takes the decisions but only for their benefit (his children) but before that I used to arrange a meeting for the Board of the Directors who are the owners and I tell them that I want to take this decision. I used to ask who has an objection. Who has an opinion about it? Is it beneficial for the company? This way I see them today and they are beloved brothers and partners in our business... [F7].

The positive aspect of flexibility and decentralisation was described as a good opportunity to offer experiences to next generation of family members in the business and on how to deal with each other. A participant among the next generation said:

If the founder does not give enough room for freedom in decision making and flexibility to the next generation, consequently a deep conflict might occur between his children after he dies, which would harm the inheritance and affect the business negatively. This is because his children did not get the chance to attain enough experiences on how to deal with each other and control the conflicts... [NG8].

It can be seen from the statement above that centralised management of founders in Saudi family businesses is perceived in a negative way because it creates discord between the founder and next generations and among next generations themselves. This may result in a lack of continuity in the family business. However, some participants

suggested solutions to minimise the founder's centralisation and to reduce the size of the dominant decision making process of the founder. One of these solutions is to transform the family business into a public joint stock company which has an independent board of directors, which will reduce the founder's dominant decision making process. For instance, one of the participants among the next generations said:

The decisions regarding the business should be taken through a meeting of the Board of Directors at their general assembly – not a single decision should be taken by one person. Unfortunately, those founders who are sole operators are committing a crime against their business and family. They are destroying their business and the Saudi economy because they are not aware of the family business succession and its grave importance... [NG3].

However, there are some founders and some next generations who see the centralised style as important in some cases, to make decisions regarding the Saudi family business. For example, one of the founders argued that the centralisation of the founder, as a type of leadership, is important at some times and not at others. He stated:

Centralisation is a kind of management style. Let us agree that sometimes it has some benefits and sometimes not. It means that if you consult those around you it is a good thing. However, you need the centralisation at some point to take the necessary decisions. I call it a leadership... [F5].

Some members of the next generations agreed with this point. For example, the son of one of the owners explained:

In the start-up phase of the business centralised management is important. Founding the company is by centralisation because the founders require critical decisions that affect the company... [NG5].

Nevertheless, he had different views against the founders' continued centralised management style. He said:

At some phases the founder should use delegation and distribute tasks. I know some founders who continue using the centralisation method, which destroyed their successful company and made it disappear... [NG5].

He gave an example of the founder's centralisation, to differentiate between the businessman and the trader. He said:

The trader stays at his company or shop buying and selling and takes decisions by himself to make profits. However, he is still limited. In contrast, the businessman builds the basis of the business then encourages the people with him to work and then gives them the authority to make decisions. Though, he continues to develop the strategy to improve the company... [NG5].

The positive relationship between centralisation and decision making was also mentioned by a member of the next generation, who stated:

Centralisation is important most of the time which means that the capacity or the ability to take a decision. He adds that not everyone could bear the responsibility to take the decision and bear the results. Adding to this he said that centralisation and decision making is that to take a wrong decision is better than no decision at all... [NG2].

In summary, most of the founders and next generation members agreed that the centralisation of the founders had a negative impact on the family business, due to their lack of concern for the opinion of others and not allowing them to participate in making the decisions. This might prevent the next generation from joining the business. The founder and the next generation introduce the next cause which is the weakness or lack of preparation plan for the next generation and the lack of a ready successor. However, some of the founders and next generation consider that centralisation in decision making is important, to some extent, to keep the business functioning. They see the only way to save the family business from discontinuity and limiting the founders from being the sole operators is by transforming the company into a public joint stock company.

6.3.3.2 The lack of Preparation of the Next Generation, and the lack of a Ready Successor

In response to the question on how important the succession plan is to the continuity of the family business and why, most of the founders and the next generation members emphasised the absence of a preparation plan for the next generation as one of the main

reasons for family business failure in Saudi Arabia. This means the lack of ready successors who are well prepared to lead the company in the future, after the founder's generation. The participants referred to the importance of the skills, knowledge and experience that should be possessed by the successors to lead the company.

For example, the founder [F1] argued that the management of the business is not something to be inherited unless the successor meets the criteria laid down by the business. He explained:

Management of the company and the leadership conditions are not something to be inherited by the children unless they meet the criteria for leading the company, such as skills, experience and knowledge. However, if he is not qualified to lead the company he will become a part of the problem, of succession, rather than the solution and that will destroy the business... [F1].

This view was supported by most of the next generation participants. For instance, one of them stated:

One of the reasons for Saudi family business failure is the weakness of preparing the second generation. It must be trained and developed and this is a difficult project that requires time and concern from the founder. As you can see, it is difficult for the successor to join the business at short notice but requires extensive preparation. They must be trained as a partner in business. They should attend the companies' management meetings to learn the nature of the work at the company... [NG1].

He commented further on one of the issues which could be confronted in this situation:

this is when the successor does not want to be the leader of the family business, as this affects continuity; he explained:

Sometimes the successor or children of the founder do not have the inclination to work at the family company because they have other interests, such as to be scientists or academics. At this point the founding fathers will find themselves lonely and they will be unable to run all the activities of the company and that could result in business discontinuity... [NG1].

Moreover, the importance of raising successors with the attributes of discipline, manners, ambition and respect for others was also mentioned by the participant, as their

absence will make the next generation lack the ambition and desire to be successful. For example, one of the founders said:

Absence of raising children in a correct way will lead them to having no ambition, desire for knowledge and experience, especially when they have gained wealth easily through their family... [F6].

Good education and training were also mentioned by the participants as important for preparing the next generation to lead the family company to success in the future. They stated that educated and talented individuals of the next generation could work at the family business or outside, due to their skills and knowledge, which reduces the pressure of finding positions for each member of the family in the family company. For example, one of the founders said:

Education and training of children give them the opportunity to work outside the company. This leads to no pressure on job positions in the company and reduces conflict. Quality decisions will then be made that support the company... [F4].

In summary, it can be concluded from the above that both the founders and next generations agreed that the lack of a preparation plan will, in the future, cause business discontinuity because of the absence of the successor who can join the company and manage it. However, they insisted that skills, knowledge and experience are the main attributes that the successors should have to lead the company. Moreover, some of them referred to the positive side of preparing for the next generation and that it was not just to lead the company, but also to gain management opportunities outside the family business, which may reduce the pressure on job positions in the company.

6.3.3.3 The Absence of Corporate Governance and the Family Business Constitution

In response to the question as to whether the founder takes decisions individually or through meetings involving all family members, most participants believed that the

absence of corporate governance and the failure to create family business constitutions may cause the failure of such a business. This is due to factors such as working to separate the management from the ownership of the company. Also included are the regulations regarding the decision-making on dividends, the employment of the next generation, and the determination of the compensation and privileges of the family members. They stated that these issues have serious implications on the family business performance and professionalism. For example, a second generation manager explained why corporate governance should be compulsory, especially in managing the process of family members joining the business and in decision making. He stated:

Corporate governance must be applied specially to manage the criteria for joining the Board of Directors by family members. This forces family business owners to not make decisions individually with only their interests. Without corporate governance Saudi family businesses would be based on individual decisions... [NG3].

Further, he gave examples of the absence of awareness of family founders of the importance of corporate governance and the family business constitution. He said:

We have been struggling for the past two years about the agreement of the family business constitution and corporate governance of the business. Within the family, some members have stipulated incredible conditions for being a part of the family business. One example is the stipulation that a person's individual wealth cannot be invested outside of the company. It is said that it is against our principles and tradition to do so. Imagine the type of problems this would create. The founders do not want to apply corporate governance because it limits their power. The constitution was prepared and should be applied but suddenly some of the owner founders wanted to choose the Board of Directors by themselves without following these regulations... [NG3].

Some of the participants mentioned the large number of members in a Saudi Arabian family, which has multiple branches that need to be regulated to reduce conflict that could cause the discontinuity of the business. For instance, a member of the next generation said:

Corporate governance is important for company continuity especially for the family that owns the companies that are in Saudi Arabia because they have many

branches. You may find some families have ninety grandsons. Who could guarantee a job for all these without clear regulations and a family business constitution?

Unfortunately, the awareness among the family owning businesses is very limited regarding corporate governance and family business constitution. To be honest it is absent. The family constitution works as a guarantee of continuity for the family business because it contains clear regulations for all pertinent parties... [NG2].

It can be seen from the above statements that the Saudi family business suffers from a lack of corporate governance and a lack of family constitutions, which could affect the continuity of the business. One of the reasons that the founders are not aware or have no desire to apply it is because it will constrain their decision making power. However, some founders understand that transforming the company into a joint stock company is a part of the family corporate governance. For example, the founder of a large leading construction company agreed that family business constitutions should include the conversion of the family business into a closed joint stock company, when he said:

We don't have a written family business constitution but we do have principles in our minds that we apply. However, we transformed our company into a closed joint stock company to ensure the continuity, because we believe in the regulation of this kind of company... [F4].

Moreover, some of the participants linked the importance of the family business constitution and corporate governance in terms of reducing family conflict and dispute to encouraging the moral and social principles by which the business managed. For example, the founder [F5] said:

We created a family business constitution for our family which contains a regulation to work according to it. The constitution has two parts: the social part which concerns our ethics, morals and dealings between the family of the owners, and another part which focuses on work ethics for the members of the family who work at the company where these become their way to deal with employees and the business. This will definitely reduce disputes... [F5].

However, some participants believed that even if there is a constitution and corporate governance regulating all aspects of the business this does not guarantee that it will

work and continue to operate in the future. For instance, a member of the next generation who is a second generation CEO in a large trading company said:

We have had a constitution from 2005 which describes how we train our children, their qualifications, their work experience, which is ideally of three years. Nonetheless, we do not rely on this constitution one hundred percent or as a full guarantee to mitigate problems in the future. At the end we are humans. I know that some family businesses collapsed due to unknown or at least unspecified reasons... [NG6].

In summary, it is clear that with regard to family businesses' constitution, from both the founders' and next generation's point of view, it is important to regulate the family business regarding the next generation and the criteria to join the business and criteria for progression and succession.

6.3.3.4 Conflict and Dispute between Family Business Members

In response to the question: Does the founder take decisions individually, or through meetings involving all family members? most of the respondents agreed that conflicts and disputes between family business members result in the discontinuity of the family business in Saudi Arabia. They pointed out that the absence of a succession plan and clear regulation managing all aspects of the family business in relation to family members will cause conflict, due to the absence of clarity concerning joining the business, ownership, career progression, compensation and dividends. For example, one of the founders believed that the positive relationship between the succession plan and the reduction of the conflicts brought about by converting the company to a joint stock company would prevent the company from failure in the future. He said:

My children will not dispute but will continue to work with each other and will care about their company because I transformed my company to a joint stock company and each of them know their rights and shares... [F2].

Moreover, another founder gave an example of injustice and how this can lead to the destruction of the business, because of the absence of regulation that would give the rights to everyone who works at the company. He stated:

I know an example that the oldest son of the founder helped his father to launch the business. However, he earned a stipend regarding this. After the father died he will have the amount of money given to him from the Shariah laws of inheritance. Even though he will be given the same as his brothers, because his father did not apply the regulations that would give the person who worked a privilege in contrast the ones who did not work. Because of this, this could be a problem that could lead to the dismantling of the company due to family disputes. This dispute may be settled either in the lifetime of the founder or after his death, although it would be better solve it when he was alive. Some founders have told their sons who have helped them in launching the business that they would be given a salary as an employee and they would not own a part of the company or gain a portion of the profits. The founder states that the company is his alone and this leads to a feeling of injustice, sadly... [F6].

It can be seen from the above that the absence of succession plans and corporate governance has a negative impact on family business continuity because some members of the next generation may feel injustice, which is likely to result in conflicts and the company's discontinuity. However, some of the participants commented on the role of family ties and the good relationship between the family members, which will work as an important reason to prevent conflicts. For example the founder [F1] said:

Communication between family members and the maintenance of amicable relations is important because if you want to build a strong company you need to build strong family ties. If there are no such family ties and mutual understandings, conflicts will occur... [F1].

In respect, making exceptional decisions against the regulations of the company to maintain strong ties between family members is important, as one of the founders explained:

Sometimes we work against the family company regulations and we sacrifice something that we agreed about previously to avoid dispute between us as partners. For example, sometimes we employed the son of some of the partners despite that he did not meet the criteria to be appointed. However, to please his father this was done... [F5].

Interestingly, a participant among the next generation members pointed out that the mix between family and company interests was due to the lack of commitment of the board of directors to the regulations of the company and this causes conflicts. He said:

Mixing family issues and business matters is a dangerous crime against the family organisation. The company should give dividends only. However, some family companies give cars, homes, air flights tickets, holidays and they think that is part of their success. In contrast I believe that this is injustice as not all of the members of the family will be included in this. In the future the conflicts and problems will happen by giving to some and not to given others... [NG3].

Furthermore, it was also believed that some of the conflicts are caused by the behaviour of the children with their parents who are the founding fathers of the business, where the children do not have respect for their fathers and do not treat their decisions in a polite way and react strongly against these decisions. Some children think that they have the right to dispute their father's decisions because they take part in managing the business. For example, the founder [F5] pointed out:

Today there are something that have become dangerous that I hope will not happen. Sometimes some of the children become disrespectful to the degree that they think of themselves in the role of their fathers in the company. Any person needs respect, especially the father... [F5].

The founder of a large building company also agreed that the new generation is responsible for the conflict because they have a weak awareness on how they manage the relationship with their fathers, how they introduce their opinions, and how they should treat the founders of the family business. He said:

In my opinion, whatever you have done, whatever you have managed, when you have made regulations and the new generation is not aware of their responsibility and how to respect their father and other members, there is a high possibility of conflict... [F6].

The members of the next generation agreed that as a next generation they should know how to introduce their opinions to the oldest founders to gain their trust and to change their minds in a special or polite way. For example, a next generation respondent who

was an engineer working as a second generation manager in a large leading construction company said:

It is difficult sometimes to introduce your opinion by using the way of objection in the face of the founder. This is a disrespectful way and maybe you will leave a bad impression in the heart of the founders. However, if you try to give your opinion in a polite way by telling him, I think he will accept your opinion and give you the trust and ability to execute that opinion... [NG2].

In this aspect, another participant referred to the ethical principles based on the Islamic religion and the traditions of family relations in Saudi Arabia to mitigate inter-family conflicts. He stated:

Following tradition and the boundaries set by the Islamic religion is very important to reduce the conflicts between the family members in Saudi Arabian family business... [NG1].

From the previous points it emerged that awareness of the next generation about the way to deal with the founder's generation is thought to be important to reduce conflict and to avoid complications. Conversely, the founder also has the responsibility to reduce conflict between the family members of a Saudi family business.

A participant from the next generation commented that it is the role of the founder to mitigate conflicts in the family business. He said:

Usually the wise founder will work to avoid internal discord between the family business members. He will work to emphasise the mutual rather than individual benefits... [NG2].

Moreover, a founder believes that the founder is responsible for reducing the conflicts by increasing the trust and mutual understanding between the members. He commented:

The absence of mutual understanding and the trust between the family members will cause problems between them and the one responsible for that is the founder... [F7].

A member from the next generation notes that the reason for conflict between family members is the huge size of families in Saudi Arabia. He stated:

To be honest continuity is difficult for the family business because of the huge family size, each one has their own agenda and opinions. Legal relatives also have influence over family members and also have their own agenda. Founders of family businesses should bring together family members and understand their concerns. In contrast, family members in Europe, Canada or U.S.A. constitute between three to five members... [NG5].

A participant from the next generation agreed that the huge size of the family leads to conflicts between them. He said:

I saw it myself in one of the big Saudi family businesses due to the large number of sons and grandsons and the large amount of inheritance with widely divergent opinions where large problems and conflicts occurred, because of this we involved lawyers to manage and create regulations for us to avoid such conflicts at our family company... [NG4].

From the above four reasons for Saudi family business failure were identified by the participants in these interviews. These were 1) Founders' centralised management style, 2) a lack of succession plan, 3) lack of corporate governance, 4) family conflict and lack of transparency. All these will be further discussed in the discussion chapter.

To summarise, the analysis of the research in this theme refers to the problem of succession in Saudi family businesses which face discontinuity, according to the opinions presented by founders and the next generation. Moreover, one of the interesting findings is that the perception of the succession in Saudi Arabia is to simply transfer the family company to a joint stock company, because such a company is monitored and regulated by some commercial agencies, laws and regulations. This point will be further analysed in the discussion chapter to give more explanation with relation to the literature of succession and the Saudi context.

Likewise, the main findings were that both founders and the next generations agreed that the founder is responsible for setting the succession plan for the family business, where the awareness of the founder is a key factor and is one of the main reasons for

family business failure, if he is not aware of the importance of preparing a plan to allow for succession of family members in the company.

Furthermore, this theme represents the success factors for continuity of family businesses in Saudi Arabia from the perspectives of the founder and next generation based on their experiences or observations. These factors were found to include: 1) the importance of the plan for early preparation of the next generation, 2) the separation of the ownership and management of the company, 3) the attraction of talented non-family individuals to work at the company. Another factor is that successful companies should be studied and emulated, to benefit from their experience to success and to avoid problems lead to failure. Moreover, one of the main findings from the interviewees' perspective is the importance of the commitment to ethical values and Islamic morals and legitimacy and the role of philanthropic and charitable endowments for the continuation of Saudi family businesses across generations, which reflect on both the company and family.

Both the founders and members of the next generation in family business in Saudi Arabia pointed to reasons for family business failure. These include: a centralised style of management by founders, family in-fighting and conflict and lack of clarity and transparency of family business activities. These will be further investigated and explained in the discussion chapter.

From the preceding theme concerning the importance of succession for Saudi family businesses, the findings emphasise the importance of the preparation plan for the next generation of the family members to take the leadership of the company to keep it serving the family in the future. Furthermore, the findings show that the founder is regarded as responsible for preparing the succession plan, while the main component of this plan is preparing the members of the next generation to: develop the competences

that are essential to give them the potential to join the family business. The next theme will focus on the elements of the preparation plan for the next generation to join the family business in Saudi Arabia.

6.4 The Elements of the Preparation Plan of the Next Generation

This second theme is directly linked to the first, as the first theme was about the role of the succession plan for the continuation of the Saudi family businesses across successive generations. It is confirmed by the participants that there is a problem of succession and continuity in the family business of Saudi Arabia and the founder should take care of planning the future to ensure the company's survival by developing the next generations to be ready to lead the company in future.

The findings of this theme will illustrate the preparation plan in terms of the elements of early stages of the development of this plan, which include education, experience, the role of family meetings and educating children. Moreover, the findings will show the role of corporate governance to regulate the process of family members joining the business and to create such conditions for this.

The plan should include all important elements that contribute to preparing the next generation of family members to take over the leadership of the business in the future. The preparation plan starts from an early age and includes education in ethics, acquisition of a university degree and gaining practical experience outside and within the company along with professional training. This will deliver a competitive advantage to the family company among business organisations in the private sector in the Saudi Arabian economy.

6.4.1 The Role of Early Education in Preparing the Next Generation

The participants consider preparing children and training them as a vital role of the founder, to strategically plan to maintain their business in the future.

One of the participants said:

I prepared my son since he was thirteen to take over the responsibility (of the business), and I trained him for this purpose. Now, he is the CEO of the company. I afford twenty-five per cent of our work time to teach my children and to educate them to gain better competences... [F7].

A founder of a major construction company talked about the distracting environment that confronts next generation. He said:

The new generation needs to be taught in many things, such as discipline and respect. But, unfortunately, the society that we are in generates many problems because of the accrual of sudden wealth that has made the new generation weak in self-reliance. So we face a problem with the new generation where they are not eligible to bear the responsibility... [F6].

Some participants refer to the role of the founding father in motivating his children and training them to take full responsibility for their family.

My father cares about education in ethics and principles, and about the work. He used to say to me if you ever dreamed that you work with me, wake up. He was teaching me that it is impossible to work with him because he is my father. But I must prove myself by myself, and he always keeps telling me that if I failed my failure would be attributed to all my family, and if I am successful it will have attributed to all... [NG1].

One of the founders commented about training the next generation, saying:

I think if you want to develop your children you should take care of them with full responsibility and seriousness. We must motivate our children and stand with them to be the next leaders of the family business... [F5].

A grandson of a founder with more than 200 companies and investment projects commented on the importance of preparing the next generation to maintain and develop family wealth. He said:

Preparing the next generation from an early age means we have to train them to take the responsibility. Our daughters participate, work and have access to part of the profits. For example, I know someone who died early and left behind him a great wealth. He had a son and a daughter and they wasted their inheritance because they were not prepared to take the management of their company's future. Thus they wasted their wealth due to a lack of skills and preparation... [NG7].

As an example of teaching ethical values to the children and its reflection on the family business success and continuity, a company owner explained:

I had divorced the mother of my children, but I insisted that my children should contact their mother and remind them to appreciate and respect their mother. And I give them extra money and I ask them to buy the needs of their mother before she asks them. I told my children, you must reach out and contact your kinship and look after them because it is a religious and social duty towards your relatives. This is an important way to be successful in the future on a personal and business level... [F6].

A next generation member believed that there are links between the weakness of the preparation and training of the children and the failure and collapse of Saudi family businesses. He explained:

One of the reasons for failure in Saudi family businesses is the weakness of the preparation plan for the second generation. The next generation must be qualified to work in the company. This requires training and development, though it is difficult to join the company between day and night, to be trained on the partnership between the next generation, attending meetings and to get to know the nature of the work at the company... [NG2].

The absence of preparation of the new generation of family members might make them without distinctive capabilities or ambitions regarding the future. A participant said:

Without the ambition of learning and development, the new generation will be a disaster, particularly if they get the money and luxury cars without fatigue. This will make next generation incapable of taking the responsibility of their family's company. This is a negative factor against the Saudi family businesses continuity... [F2].

A next generation member added:

It is important to involve children to work in the company and they feel it is necessary for their future as it is part of their dream. They will be a productive generation. But if they gained money easily and without showing any efforts, as happens in many companies in Saudi Arabia, and then they will not feel the value of the continuation of the company in the future... [NG5].

A respondent explained that if you do not give the children profits from the company, it will reduce their interest in the company and the value of it. This also weakens their association with the company and is reflected in the company's continuation in the future. He said:

Children and grandchildren, when they benefit from the company, they feel that there is a link to the importance of the work to the company they feel it is a source of livelihood that deserves attention, growth and continuation. Some founders do not give their children any money from the company profits and he says I did this business for them. However, they do not feel any link to the company or they do not value what the founder did because they are not benefiting from the company, consequently they do not care about it... [NG5].

The participants also illustrated their perceptions regarding the concept of early preparation of the next generation of the family-owned businesses. A respondent commented that he had received a good preparation from an early age. He said:

Good preparation is becoming accustomed to discipline, trustworthiness, honesty and ambition. I was working with my father from the age of fourteen. During the summer vacation I spent two months working at the family-owned factories. It was required, if I want to travel in the holiday must work in the factory... [NG4].

The participants stressed that the early preparation education of the children started at an early age at home, which is a part of their culture and their parents' duties. This will be further illustrated in the discussion chapter. A founder explained:

Our religion teaches us that early education and preparation for young people is important and essential. Our religion supports morality and encourages us to raise our children according to these morals. Manners must be brought up in the house no matter how much money you have. Preparation remains an important element in childhood while training and work experience, since childhood is essential for family business continuity... [F1].

Some participants refer to the interaction with a new generation through responding to their inquiries about the business. This is a way of preparing and giving opportunities to them whilst also showing interest in them. A participant said:

Give them the opportunity to participate and answer their questions. For example, a next generation at a secondary school might come and ask certain questions about the company. The founder should encourage them by answering their questions with the greatest possible level of transparency...[NG8].

The new generation's education and training are reflected in the success of the company from another angle. He argues that next generation doesn't need to join the company because they are well qualified where they can find opportunities outside the family company. A participant said:

A new generation's education and training gives them a great opportunity to work outside our company. This leads to a decrease in overcrowding in getting a job in the family business, which in turn limits conflicts while restricting the decisions that could damage the interests of the company... [F4].

From the above statements the importance attached to the preparation plan for the next generation can be seen. The participants agreed that the preparation plan should be from an early age which begins at home and is dependent on ethics, education and training. This is provided to the children by the founder.

One of the aspects that the founder should supervise with regards to the succession plan is the discovery and evaluation of the next generation's capabilities and abilities to learn the necessary skills and responsibility to run a family business. Some participants introduce their point of view about the successor's personal ability, suggesting that this should be discovered and evaluated by the founder in order for the successor to take over the leadership of the company:

It is necessary that the initiative should come from the next generation. Of course, the founder will encourage them and teach them and bring them up, but there is no guarantee that they are able and willing to assume the responsibility of the company... [F2].

It is not necessarily the case that the entire offspring of a founder will be ready to work and take over the management of the family business. However, each family member must be treated in a fair way and given the same benefits, while the leadership of the company is granted according to personal, leadership and management skills. A participant said:

Each of your children will not be at the same level of ability. Therefore, all should have equal rights as owner, and treatment. But give responsibilities and leadership in the company depending on their capabilities... [F3].

One interviewee commented on the role of the founder to discover his children's capabilities and the importance of gradually preparing them to take responsibility:

Father began to give me some small duties to assess my ability to take responsibility. The more he saw me successful at one stage the more responsibility he gave me. He put most of the powers in my hand, that I have obtained the required abilities and potential. When he was convinced of my abilities and my potential ... [NG5].

From the previous statements it appears that education and training are essential to provide the next generation with the ability to be future leaders. However, some participants claim that education and training are not enough and this also depends on the successor's personal ability and willingness to take the leadership of the company. The next statements are about role of the founder of the business as a model, icon and example who should be emulated. In this regard, a next generation member highlights the importance of the role of education and preparation by example, as it influences on building a new generation and leads to the future sustainability of the business. He said:

Currently, the existing generation in the company is trying to teach the next generation through a good example in the way of working and how to deal with other partners to maintain the family's reputation in the market... [NG8].

A founder comments on the impact of such models in preparing and training the new generation and how they are implemented:

The influence of role models can be recognised in your children and their way of life. Sometimes, I take them with me to show them how to give charity. I say to them; I want you to know that you are responsible for the community if you are able. The principle of responsibility that our Lord (God) has given us the best thing and we should take the responsibility of society and must help others... [F6].

From these findings that were delivered by the participants, that may conclude that the founders and the leaders of the companies have a great influence over the next generation as role models to be followed and respected. The next statements focus on the motivation of children, to develop their intention to obtain more education, skills and experience.

6.4.2 The Motivation of Next Generation and Opportunity to get Experience

It is vital to motivate the next generation's efforts and give them the opportunities to exercise some tasks and responsibilities in order to train and prepare them for future.

F1 and F7 commented about training from childhood and its impact on preparing the next generation for the company's future by giving them the opportunity to express their abilities. They said:

The importance of experiment was given to my children; an opportunity for the new generation is necessary. We give our children a certain budget to teach them how to develop a small financial budget ... [F1].

I consider that, the practical training from a young age is critical and important for the next generation. In addition, the educational training is important. However, practical training is the basis for success in all works. I gave them the chance to participate in the work from a young age; I gave them the responsibility to build their trust and to motivate them to be future leaders... [F7].

In this regard, a respondent adds:

My father gave me the opportunity to make some decisions, and there are some decisions I know are tough. However, my father deals with me quietly and encourages me to build my confidence. My father said that the profit is not

important but what is important is the ability to work and to gain the experience to make decisions.

Also, my father accepts my opinion and changes his decision based on the acceptance of my views. He does not have a problem with that. However, the gap in age between him and me is great, I'm in the forties and he is near eighty. This was a very big incentive for me... [NG5].

From the preceding points, it appeared that the participants valued the role of gaining experience by offering the next generation the opportunity to work and participate under the supervision of the founders. This is to make them ready to lead their family business. As stated by the founders and the next generations that participated in the interviews healthy relationships between family members and keeping strong ties are essential to the family and to the business. From this point of view, the interviewees mentioned the role of the family meetings to educate and prepare the children to lead the family business in future.

6.4.3 The Role of the Family Meetings and Gatherings to Educate and Prepare of the Next Generation

Concerning family social events and periodic meetings, some participants pointed out that these are good opportunities to prepare the next generation of the family members for owning the business. He explained:

Those who work inside the company are usually in contact with each other significantly. We have social events and company private events. We invite businessmen from different nationalities to give our next generation chance to meet them, know them and learn from them ... [F2].

A participant mentioned specialised family meetings in order to transfer the practical experiences of family businesses to develop the new generation. He said:

There are formal events where we invite some consultants to speak about specific topics that serve the objectives of the company, and usually the next generation attend.

We have two meetings a year: the first meeting we call it the communication meeting, which includes the company managers from family members and non-family members and our next generations.

The second meeting: we call it the third generation leaders, for our children. Usually, the speakers are the family business founders and speakers from outside the family. Also, senior managers from our third generation speak about their experiences... [F3].

A participant argued that the benefit of specialised family meetings is that they have positive reflections to develop the children for the future of the company rather than purely social gatherings. He explained:

The family has common meetings to strengthen relations between family members; to share values, raise opinions and ideas. It enhances communication between our children. We talk about our business in front of our new generation to link them with the company. But I prefer the formal meeting with the new generation if we aim to develop them for the benefit of the company... [F5].

A founder and a next generation member addressed the role of family meetings in building a sense of responsibility among the children and reducing family disputes. They said:

Communication with family members is part of the company plans. To communicate with relatives of the family where the children are encouraged from a young age to do so. To train the new generation that they are part of the family and they should bear the responsibility of the family ... [F6].

There are some family problems reflected in the company. For example, the new generation believes in some ideas, but because of the family traditions they cannot take it to the first generation. However, family meetings should break barriers and make closer ties between first and next generations, could give children the chance to express their opinions in front of the founders ... [NG2].

From the statements above, the importance of family meetings in preparing the next generation can be seen. However, some participants argued that family meetings are not useful and they do not strengthen the relationship among the next generations when the family company reaches a point where the problems are caused by not applying corporate governance.

A respondent argued that family meetings are not useful and do not maintain the continuation of the family business. He explained:

Family relationships could collapse because of lack of fairness and justice between children. Also may be the founders do not take into account the family side, but they care about the company more than family by refusing Corporate Governance. In addition, some partners also try to grant their children the direct managerial positions in the company and thus conflicts occur between founders... [NG3].

Importantly, it should be noted that F3 stresses the role of the social and charitable activities of the family and their impact upon the continuity of Saudi family businesses.

He said:

The Family Council mission monitors the company's business and takes care of the charitable project run by the family as well as, caring for community service and youth development... [F3].

A next generation member mentioned that the social and charitable activities create an opportunity to prepare and increase coherence between the new generation members, which is reflected in the continuation of the family business by reducing conflicts between family members. He explained:

We thought to create a big project between grandsons and granddaughters; we decided to put a charity project adopt a certain number of orphans, and every month we visit the houses which are in need. Every time a number of grandchildren were involved in the delivery of charity to the needy. This action of the charity project makes a strong link between the next generations, in my opinion this project will ensure a strong family link because good deeds always bring good results... [NG2].

From the preceding findings, the importance of family meetings to prepare the next generation is highlighted. This will be discussed in the discussion chapter.

The participants identified elements that a preparation plan for the next generation should contain and the criteria to join the family businesses in Saudi Arabia.

6.5 Education and the Educational Level

The children's education and selection of appropriate scientific disciplines should support their future and the continuation of the company in the future. A participant said:

We have established a family office for external training and education, which communicates with international universities regarding our next generation formal education.

The Family Office helps our next generation to select the appropriate courses to study to enhance their future and also their compatibility with our company and business requirements... [F6].

The importance of education was highlighted and the choice of specialities that assist the interest of the new generation and also serve the company's interest to contribute to the continuation and success. A respondent said:

The new generation should join university. Study to get a degree from the university is essential and a basic requirement to work in the company, which is written in the family business constitution. We help them to select scientific disciplines that benefit the group (family) in the future and reflected in the competitive advantages of the company... [NG7].

However, a participant argued that there should be no requirement for a degree to join the company, because it is our children's right to have job opportunities in their family company. He explained:

Father is responsible for his children to study but not the company. However, the next generation has the right to join and work in the company if there are job opportunities with no qualifications, but the salary depends on the approved salary scales of the company, which depends on their qualifications... [F5].

A founder commented that education is important and the key to working in the company but the qualifications were not a requirement to join the business, although they would apply to salaries and a promotional system. He said:

We want and prefer the next generation to hold a degree. However, it is difficult to force the children to study at the university. However, the next generation still would find a job in the company without specific qualifications... [F6].

A next generation member stated to achieve a certain level of education is not a requirement to work in the family business. This is due to the absence of awareness of the founder about the future of the company. Founders focus on their own interest more than the company's interest. He said:

There is no specific and standard requirement of education or experience to join the family business. The reason is that every one of the founders wanted to appoint his son to a managerial position, even when he is not qualified...[NG3].

To summarise, some participants regarded education as a requirement to join the company whilst others do not. However, the participants agreed that work experience is one of the most crucial elements required for the next generation to join the company. A founder commented that education alone is not enough but it should be combined with work experience. He explained:

Achieving a university degree is not a requirement to work in the company although practical experience is the foundation to work in the company... [F2].

Some interviewees comment on the need to combine experience with the role of formal education in the continuation of the Saudi family business. One explained:

The children are advised to study a bachelor degree in engineering and get a master's degree in business administration, where the engineering gives the new generation the practical thinking and the administration gives them the theoretical capacity, and this will surely serve in the future of the family business when it is combined with work experience... [F6].

A participant confirmed that education and training of the new generation are reflected in the success of the company from another angle. The next generation do not need to join the company, because they are well qualified so they can find many opportunities outside the family company. He said:

Education and training of the next generation give them a great opportunity to work outside the family company. This leads to a decrease of overcrowding in getting a job in the family business. And in turn limits conflicts and restricts decisions that could damage the interests of the company... [F4].

A respondent commented on the importance of education and training of the new generation. He explained:

We should educate the new generation, because of that we have a committee, which consists of academic consultants who work to develop our generations. Now they are observing the third generation, for example, some of them in the secondary school and some in the University.

We encourage our generations to work outside our company, for instance, in banks, after three years' experience they are entitled to join the company. However, in order to join the company a new generation should pass through a special committee to evaluate his abilities and suitability to work in the business and which position is appropriate for him... [NG6].

From the previous findings, the participants confirmed the importance of the role of education of the family's children to join the family company. However, some of them argued that working at the company does not need a qualification but depends on the work experience and the skills that are acquired by the next generation.

The next subsection will highlight the role of experience and skills.

6.5.1 The Level and Number of Years of Experience Required to Join the Family Business in Saudi Arabia

A participant referred to the years of experience that should be acquired by the new generation working outside of the company. He said:

The children can join the family company if they worked for three to five years in other companies in the market to gain experience for several years. Moreover, the next generation should be offered a promotion in the place where they work and then we give them an offer to join the family business...[F2].

Concerning the founder's role in assisting the families' children to work in selected companies, so that their experience is reflected in the continuation of their family businesses, one of the founders said:

We are helping our next generation to work in particular business groups. For example, banks and telecommunication companies to benefit the future of our companies... [F1].

A respondent commented on how training outside the company benefits the successors, where they learn discipline and hard work which distances nepotism. He explained:

The new generation must work outside the group and gain almost five years' work experience in order to prepare them well and learn methods of work. Father and uncles encourage us to work outside and help us to have certain jobs in certain places in order to gain proper preparation to benefit our company in the future... [NG7].

Training of the new generation under the supervision of the founder of the family business is also vital, leading to positive results for the future of the children and the future of the company. participant said:

In our Board of Directors meetings, we invite some of our new generations with us to attend to train them and to give them a vision of the company and what system is used to manage the business... [F4].

He added a comment about the importance of training the new generation outside the company and the relationship in the formation of their loyalty and dedication to their family company. He said:

If you want to attract the new generation of family members to work in the company and continue then they must be trained outside the family business to know the differences between the work outside and inside the family company. This grows and develops part of their loyalty if they try to work for another company. They will also value working in their family company... [F4].

The preceding findings will be further analysed in the discussion chapter, under the importance of experience and skills that should be acquired by the next generation to join the family business. The next elements of the preparation plans, as stressed by the participants, are concerned with the ethics and values that should be instilled in the next generation.

6.5.2 Ethics and Values and Governance

The following paragraphs contain some contributions from the participants regarding the role of ethics and values in the plan for the preparation of the next generation and its relation to the continuity of Saudi family businesses.

F3 commented about the role of ethics and values among family members and how they should deal with each other. This includes respect, honesty, transparency and justice.

He said:

The children show respect for senior family members and older family members show kindness to their descendants. Family secrets remain among family members and family disputes and problems remain in the family boundaries and not seen from those outside the family. In addition, the interaction between family members is based on honesty, transparency, respect and justice... [F3].

The religious and moral education that should be delivered to the next generation includes respect to other people. One of the founders said:

The asset that you have learned from your religion (Islam) must be delivered to your children; respect for others, respect for any race and any religion. I learned many things from my religion; I learned many things from the Holy Quran. I learned the ethics of work and the ethics of dealing with others. However, these essential elements need to be applied... [F1].

A next generation member commented about the ethics and values that he received from his father in relation to their continuity preparation. He said:

For me Shariah values, customs and traditions are the foundations on which we depend and the source of this is the Islamic religion... [NG1].

In these findings the participants confirm, the participants confirm the role of the religious and moral education that should be delivered to the next generation to prepare them for the company's future.

The following findings from the interviews are concerned with corporate governance and the role of the family business constitution in the preparation of the next generation in Saudi Arabia.

A respondent among the next generation supports the important role of the family business constitution and corporate governance and their reflection in the continuity of the family company. He commented:

The corporate governance is crucial for the continuation of the company, especially with the family companies in Saudi Arabia, because it consists of large numbers of grandchildren, up to 90 people almost. Moreover, it is difficult to manage this number of people without clear agreed regulations...[NG2].

A next generation respondent mentioned the importance of education and the choice of specialities that assist the interest of the new generation and its relation to the family business constitution and corporate governance. He explained:

The new generation should join university: study to gain a degree is essential and a basic requirement to work in the company, which is written in the family business constitution. Moreover, we help them to select scientific disciplines that benefit the group in the future and are reflected in the competitive advantages of the company... [NG7].

It was added that the family business constitution has a positive effect on the clarity of the future for the new generation. A member from the next generation said:

Recently we had a new constitution for the family, and there is a kind of clarity for us about the chances of the new generation to join the company... [NG1].

A point of view delivered from another participant was that sometimes the family business constitution is not applied, in order to maintain family ties and the relationship between the founders. He explained:

Sometimes we might be forced to not apply the company regulations system was agreed to avoid the conflict between us as partners and as family members. For example: we employ the son of one of the partners even though he did not meet the company standards but in order not to be displeased with his father... [F5].

Supporting the previous point concerning not applying a family business constitution, one of the next generation members said that family constitution and corporate governance are not important from the new generation's point of view, simply because they rely on customs and the traditions of the family rather than corporate governance.

He said:

The younger generation may not be convinced by the family business constitution. Although they know that the father was a believer in the constitution.

He added: *but, unfortunately, the awareness among the families that own businesses is very limited and almost not existent in terms of corporate governance... [NG2].*

From the statements above, some of the participants stressed the need to apply corporate governance and have an active family business constitution to regulate the family business activities. However, some of them argued that the family business constitution will not be applied for reasons such as avoiding conflicts between family members, which necessitate applying exceptional rules for special circumstances.

The clarity of the objectives and regulations and their relation to the preparation plan of the next generation of the family members and its reflection in the continuation of family businesses were also discussed by the participants. For example, some participants explained that there were no written standards to join the company but that it was implicit in the application. They said:

There are no written regulations or clear standards for the new generation with regard joining the family business. However, there is an agreement between the founders to make the educational level a condition to enter the next generation to the company... [NG4].

We do not have a written plan. However, we have a comprehensive plan in our minds where it is linked to the business needs... [F5].

The lack of clarity of the plan for the next generation to join the company had an impact on the next generations' decisions to work for the family company. A respondent among the next generation said:

There was no clear plan for us. I do not know how I can join and work at the company. I was the first person to work in the business among the new generation. The founders had to deal with me, and they did not trust me much that made me feel uncomfortable... [NG1].

In these cases, there is no system or written regulation or standards to guide a next generation to enter the business. It was also reported that sometimes there is no application of the system, because of the personal interests of the founding partners. A second generation manager in a major technology company said:

Unfortunately, it is applied only for two out of ten of the next generation...[NG3].

The participants stated the successors' willingness to join the family company and work with it is essential to ensure the continuity of the business. The next group of statements concern the desire or otherwise of the successor to work with the family business in Saudi Arabia.

A participant mentioned that the family company may encounter problem that potential successors unwilling to work in the family business. He said:

It may be the children do not have the desire to work for the family company, because they have their own interest. Then the founder finds himself alone, and he cannot handle the multiple activities, which could result in the company not continuing in the future... [NG8].

A respondent commenting about the desire of the successor to work in the family business said:

Some young people do not want to work with the family company. They prefer to find their own work and achieve their own ambitions... [NG5].

To conclude, theme two revealed findings regarding the role of the early education and preparation of the next generation in the continuity of Saudi family businesses. The findings show that the preparation of the next generation is essential and should begin from an early age. This depends on the elements of early education, ethics and values, religiosity, societal traditions and the experience and skills that need to be acquired by the successors to join the company successfully.

However, the findings show the need to also apply corporate governance to maintain continuity by benefiting from regulations to manage the activity related to the family members. Nevertheless, some findings show that the corporate governance and family business constitution was not be applied, to avoid family conflicts. This will be examined in the discussion chapter.

The next theme will be concerned about the participants views the factors that influence the successor to continue working in Saudi family business after the next generation joins the family business.

6.6 The Factors that Influence the Successors Continuing to Work in the Family Business in Saudi Arabia

Theme three introduces the factors that ensure a successor will continue working in a Saudi family business, and thus it is hoped, alleviate the problem of family business succession. These factors include the founder's retirement plan and also the desire of the successors to continue to work within the family company. They also include the impact of the compensation and promotions that are afforded to the successors and the regulations that permit and prohibit the successors from owning their own business in parallel to working at the family company.

6.6.1 The Founder's Retirement

The next generation needs to have clear vision about their career path in the future in the family company. However, this clarity is required from the founder... [F6].

Another participant stated that founders are encouraged to retire and find other activities to keep themselves busy. He said: *We try to make them retire by the age of 65... [F3].*

In addition, they try to create opportunities for the founders to have other social responsibilities. A participant stated:

We created a family council that gives the people who have retired or will soon retire the opportunity to help in the community, such as supervising work. This makes it easier for the founders to move from the Board of Director to the family council ... [F3].

A participant stressed that the next generation should take the leadership of the family company in the future. However, the retirement of the founders is not necessary. He explained:

In the future there is a plan that one of the family members will be the leader of the business. However, there is no intention to retire, there isn't any certain age for retirement, and as you get older your working hours decrease... [F2].

From the preceding statements, it can be seen that some of the company founders had plans to retire and others had no intention to retire but that would not counter the next generation from taking the leadership of the company.

Some interviewees said that the leadership of the company should be mixed between family members and non-family members, which give the company a competitive advantage in the market. One of the founders said:

We mix between managers from family and non-family members because we want the business to have the ability to compete internationally. However, if any next generation manager is skilled we would prefer them to take a leadership role. But if we had to attract non-family member managers, professionalism and competence is what we would expect...[F3].

In addition, many founders do not adhere to their retirement plans and the family business constitution. A next generation member explained:

In our family business constitution, we agreed that founders should retire by the age of 65 to give an opportunity to the next generation, but some founders stay working beyond their agreed retirement age ... [NG7].

A next generation member mentioned that the next generation should be taken into account regarding leadership in the future. For him this issue has not been discussed but there has to be professionalism and a good relationship between all family members.

He further explained:

A professional manager working in a family business should have a good relationship with family members and non-family members alike within the company, to give him the chance to represent himself as the future leader of the family business ... [NG8].

Another founder commented that the next generation should be encouraged to take the lead of the company in future. This identity of ownership works as an advantage and encouragement to the next generation to care about the company. He said:

We are highly concerned about making the next generation take a lead in the company. We want our children to be the future leaders of our family business because they have the same ideas, behaviour and ambition that we have...[F6].

Another founder comments about retirement and how it encourages the next generation to know that they are the next leaders in the family business. He said:

We respect our new generation and appreciate their effort to increase their confidence and send them a message that they are the future leaders of the company and we are retiring ... [F4].

About the next generation family members taking lead in the company. A next generation argued:

It is not necessary that a next generation family member becomes the manager if he doesn't have the skills and qualities needed. There would be a non-family member manager taking lead until a family member has the skills and qualities required... [NG1].

The importance of the next generation to lead the family business, even when they do not have a full set of managerial skills, was highlighted by a next generation member, who believed this could be covered by their loyalty to the family.:

The next generation should be capable of leading the company in the future and have sufficient skills. However, if they have 70% of the necessary skills the 30% will depend on their loyalty to the family because they are part of it...[NG5].

The above findings show that there is an intention from the founders in Saudi family businesses to transfer the leadership of the family company to their children by revealing a clear statement regarding their retirement. However, some of them argued that transferring the leadership to the next generation does not require the founder to retire. Also some findings show that launching social activities for founders after their retirement is pivotal for them to make use of their time after their retirement to reduce their attachment to their business, as mentioned in the literature. This will be discussed in the discussion chapter.

The next set of statements outlines the criteria that the members of the next generations should fulfil in order to be accepted as potential leaders in the future, and their desire to keep working in their family businesses. The successor's aspiration to continue to work in the family business when the founder uses a centralised management style it creates a problem from the perspective of the next generation. This is likely to prevent them from working in the family company or to continue working in the company. One of the founders pointed out:

If there is centralisation in the company, it will prevent the next generation from working in the family company ... [F2].

Another founder comments about the next generations' choice of working in the company whether they want to work or not. He explained:

Whoever doesn't want to work in the company has two choices: Firstly, he will stay as shareholder at the end of the year he will get a dividend of the profits. Secondly, he sells his part of the company to the company or to one of his brothers... [F3].

Another founder commented on how his children wanted to work in the company, which encouraged him to continue working in it. He said:

I found my children interested in the company and wanted to work in it. They encouraged me to work and I'm doing this for them not me ... [F7].

6.6.2 Successor's Competences, Professionalism and Personal Qualities

Individual ability was highlighted in the interviews as an important item. A founder pointed out:

We found out that giving the next generation work over their ability is not reasonable. We can't make them lead the company if they are not capable of taking this lead. We look for what's best for them and suit them ... [F3].

Other founders stressed that the successor should have their own vision. He said:

The successor should have a unique vision about their selves and their future. Where they introduce their selves to others in order that they deserve to be the next leader of the family company ... [F2].

Ability and competences are seen as the most important. A participant said:

I know people with a PhD qualification. However, they do not know how to lead a business ... [F7].

Competences, knowledge and honesty are the main principles that are looked for by founders. Some of the participants said:

You can't force others to be partners in the company if they are not qualified. This will disadvantage business continuity as we need a professional, knowledge and honest man for the job ... [F4].

The ability of taking care and working hard is the competences... [F6]

The future leader of the family company should care for their family ties and have other characteristics, such as ambition and concern for the future position of the family business... [NG2].

As stated above, leading the family business company requires quality leaders who have professionalism and skills to lead the family business and ensure its survival.

6.6.3 Successor Compensation, Management Positions, and Promotions

Compensation is again highlighted, and that it should be offered to the next generation to encourage them to work in the family's company. A participant said:

Because of the public joint stock company system our next generation gains profits from their own stocks like other stakeholders. However, in our closed joint stock company they get the privilege of buying the company stock at the original price ... [F2].

The compensation that is given to the next generation who are working at the company is also emphasised as a factor for attracting the next generation to continue working at the company. However, ownership is not a part of the compensation that can be given to the next generation to attract them to work to the company. One of the participants pointed out:

The next generation will not have any part of the company ownership unless it is through his father's ownership, whilst if he is an employee he will receive compensation and salary like others who work in the company... [F3].

This founder again referred to the management positioning in Saudi family business.

One of founders said:

Our main principle is to promote our next generation position in the company which depends on their effort and management skills. Some of our next generation lead some part of our family companies and some of them are now part of the Board of the Directors... [F3].

A next generation interviewee referred to the authority and decision making that is granted to the next generation in Saudi family businesses. He explained:

The founder has standards, which affect to whom he gives authority and who would be allowed to participate in decision making. For the next generation who work in the company it depends on their skills and experience ... [NG7].

A founder referred to the guaranteed job for the next generation in the family business, if they would like it, and that there are no specific conditions they have to fulfil to continue working. A respondent said:

Even if they don't have qualifications we will find them a job in the company, as they are part of the family, because they have the right to live in dignity by benefitting from their family's wealth. However, the next generation will be offered a job and compensation depending on their ability and level of qualifications, because this will let family members feel justice. Nevertheless, we should take care about our children's needs because it has a negative impact on family business continuity if they are not satisfied... [F5].

Regarding promotions in managerial positions in the company, this founder added:

I created a project called "our children" consisting of: Firstly, they have the right to work in the company. Secondly, our children have the chance to create their own business and we will support them if they introduce a precise feasibility study. Thirdly, they have the chance to work in the family company while he is managing his own business... [F5].

A different founder added that the compensation for the next generation in Saudi Arabian family businesses depends on their innovation to create new business ideas. He explained:

If one of the children is ambitious and he introduced a clear vision about a business idea, he will have a part of their ownership of their idea ... [F6].

Giving part of the ownership of the company to the children is considered justice as an appreciation of their efforts. A participant said:

If the successor is given a business plan by his father and succeeds in the business, the father will give him his part of what he did as an appreciation to what he achieved... [F6].

A next generation member referred to the family company ownership and profit making.

He explained:

We have a closed joint stock company; we divided it in the past. However, who works in the family company does not get an extra part of the ownership, but gets part of the profit the family company has made as an appreciation to their hard work... [NG5].

Another next generation member made reference to the promotion and the transition between the managerial positions for the new generation of family members in the family business. He said:

I worked in the company; in the beginning I worked in the sales department, then at the warehouses. After this stage I was promoted to be the director of the commercial department as well as increasing the experience gained and then they offered me a new job and a new position in the company ... [NG5].

There can be a lack of fairness in the appointment of the next generation in managerial positions. This is due to the founder's preference for their personal benefit rather than the company's. A respondent pointed out:

There is a lack of justice in the appointment of the next generation in managerial positions between the sons of founders. I made a proposal to establish a committee specialised in appointments of the next generation in managerial positions and to determine the financial rewards. The committee is from outside of the family consisting of specialists in leadership and Directors of top companies that our family company have a relationship with all the new generation must resign. Moreover, the new generation skills will evaluate by the Committee, then appointed to the positions according to their competence and skills. However, unfortunately, the idea did not succeed because some of the founders wanted to appoint his son to a certain position even if he is not qualified to do so... [NG3].

From the preceding statements, it appears that the promotions and the compensations that are given to the next generation are to attract them to work in the company. Some of the participants referred to the rights of the next generations to benefit from the ideas that they invented and successfully invested in. However, some participants argued that the next generation has the right to have benefit from the profit but not the ownership and this will be discussed in the next chapter.

One of the factors mentioned by the participants that encourages the next generation to continue working in the family company is discussed in the next sub section.

6.6.4 Allowing the Successor to Work in their Own Business, while Working in the Family Company

Some interviewees supported the idea that the next generation should have power over how and where they work. If they work at the family business, other business ventures should be permitted, if not encouraged.

One founder supported such independence, saying:

I support anyone who wants to do their own business, to help them develop themselves ... [F7].

Another founder referred to the right of any of his children have to work in their own business. He further explained:

They have the right to work in their own business and I will support them as long as they give a clear introduction of what they are doing in the business. They also have the right to work in the family business... [F5].

An interviewee who was a founder referred to giving opportunity to the next generation to work in the family business, but encouraging them to work outside the family company if they desire to do so. He said:

There is no problem in not working in the family company; any family member has the right to work in their own business. Our family company has a small number of family members working in it... [F4].

The importance of the successor's independence in working in his own business is emphasised. A next generation respondent said:

Our parents encourage us to work in our own business as long as we give them a clear introduction about what we're going to do... [NG5].

However, there is an opposing opinion from a next generation interviewee who was against working in the family business in addition to working in his/her own business. He argued that the person who wants to work in the family business should devote all his/her time to it. He explained:

You have to respect your work and make a responsible amount of time to your work, while working your hardest and your best, because we care about the company and to test your own abilities ... [NG7].

To sum up the findings of the theme concerning the factors influencing the successors to keep working at their family businesses, the main finding about the founder's retirement plan is that some founders had the intention to retire and have other social responsibilities to conduct and fulfil their interests. However, others did not have or execute a retirement plan and both the founders and the next generation agreed to pass the leadership to their next generations. The other findings are the factors that attract the successors to work and to continue working in their family business in Saudi Arabia, such as adequate compensation and promotions that shape their career path in the future and also giving the successors the choice to have their own business whilst working in the family business.

6.7 Summary

The three themes have been used to present the main findings of the research about the succession plan and the continuity of Saudi family business.

The first theme is concerned with the impact of succession plans upon the continuity of the Saudi family businesses. The second theme is about the elements of the preparation plan for the next generation to join Saudi family businesses. The third theme focuses on the factors that influence the successor to continue working in Saudi family businesses.

The first theme highlights the problem of the succession in Saudi family businesses which face discontinuity. One of the interesting findings is that the perception of the succession in Saudi Arabia is just to transform the family company into a joint stock

company, because it is monitored and regulated by some commercial agencies, laws and regulations.

The main findings that emerged from the analysis of interviewees' responses were that the participants agreed that the founder supervises setting the succession plan for the family business. The awareness of the founder of this need to plan ahead has a primary role and the lack of the awareness is one of the main reasons for family business failure. Furthermore, this theme was used to present the successful factors for the family business in Saudi Arabia. Such factors include the importance of the early preparation of the next generation plans and the separation of the ownership and management of the company. Additionally, one of the main findings is the commitment to ethical values and Islamic morals and legitimacy and the role of philanthropic and charitable endowments for the continuation of Saudi family business.

The findings show the reasons for family business failure in Saudi Arabia. These include: centralisation of management by founders, family in-fighting and conflict and lack of clarity and transparency.

Theme two revealed the findings regarding the role of the early education and preparation of the next generation in the continuity of Saudi family business. The findings show the participants believed that the preparation of the next generation is essential and should be begun from an early age. This depends on the elements of early education, ethics and values, religiosity, societal traditions and the experience and skills that should be acquired by the successors to join the company successfully.

However, the findings also show the need to apply corporate governance to maintain continuity by benefiting from regulation to manage the activity related to the family members. Nevertheless, some findings show that the corporate governance and family

business constitution were not applied, to avoid family conflicts, even if it was not working for the benefit of the company.

Theme three of this chapter revealed the factors influencing the successors to maintain their work at their family businesses in Saudi Arabia. The main results were about the purpose of the founders to retire from their business while some of them plan to retire and have other social responsibilities to conduct and fulfil their interest. However, others do not have or execute a retirement plan and both parties agreed to pass the leadership to their next generations. The other findings show the factors that attract the successors to continue working in their family business, such as adequate reward and a rise that shapes their career path in the future and also give the successors the choice to have their own business while working in the family business.

These findings will be further discussed in detail in the next chapter, in relation to the literature review of the family business, to explore the findings deeply.

CHAPTER SEVEN

Discussion of the Research Findings

7 Discussion of the Research Findings

7.1 Introduction

This chapter discusses the findings presented in the preceding chapter. The findings are also analysed in relation to the relevant literature, which was presented in the previous chapters. The main aim of this study was to gain a deeper understanding of the family business in Saudi Arabia in term of their continuity by transferring the power and management of the company to the next generation. Additionally, it investigates the factors that might influence the succession process to enhance understanding of the family business in the Saudi Arabian context.

The next section discusses the succession problems that could affect Saudi family companies and attempts to identify the reasons behind the problems.

7.2 Succession Challenge versus Dream of Continuity

It has been argued that, in many countries around the world, the fundamental concern in the family business is the succession. However, to guarantee the success of the family business in the future is a critical task and the management of succession can be problematic.

Succession planning has a substantial importance within the family business, as this affects company continuity and transition of ownership and leadership from the generation to another (Miller et al., 2003; Bigliardi and Dormio, 2009; Mitchell et al., 2009; Howorth et al., 2010; Gilding et al., 2013). Due to the high percentages of failure that are recorded in family business management succession, this topic and its related aspects have become an important element in family business literature (Handler, 1989; Handler, 1994; Bigliardi and Dormio, 2009; Elamin and Alomaim, 2011). The Family

Business Institute (2014) indicates that only about 30% of family businesses will survive the transition from the first generation to the second generation worldwide. Moreover, only 12% will survive after the transition to the third generation, and 3% to the fourth generation and beyond (Burns, 2014). However, Ward (2004) claims that as many as half of all family businesses hand over the business to the next generation.

The founders and next generation members who participated in the interviews in this study agreed with the other studies conducted all over the world that family businesses in Saudi Arabia have or face a succession planning problem.

Many of the founders of family businesses considered the succession plan as an essential tool to enable their companies to continue in the future. They believed that lack of management of the future of the company, by not setting a clear and focused plan, would lead to discontinuity of the family business in Saudi Arabia. In other words, the succession plan is a path to development and competition in the market which is considered as a part of the strategic planning of the company.

One of the founders of a public joint stock company argued that a succession problem faced Saudi companies, as the lack of succession plan had led to the collapse of many businesses in the private sector. However, these collapses were usually due to conflicts arising between the family members. Many of the founders believed that these conflicts happened as a result of the lack of succession plan. The findings of the interviews showed that the conflicts between the children of the founder started after his death, because he did not create a succession plan and left the company facing this critical moment. In addition, at the time that the founder was living, he used to manage and control most events related to the company and the family. This dominant style from a founder prevents his/her children and other family members from expressing their opinions and limits them from learning the business strategies. Moreover, this kind of

style creates a lack of mutual understanding between the family members, which can lead to conflicts after the founder's retirement or death.

We have seen such conflicts between children of the founders of some Saudi family companies, which have led to collapse ... [F1].

For example, according to a family businesses expert, Dr. Sami Tysir Sulaiman in Saudi Arabia, there are approximately 25 SR billion (4 US \$ billion) frozen in family businesses because of disputes between the siblings of the families after the death of the founders of the company. These disputes also cause the family-owned companies to collapse or fail (Chamber, 2013).

Conflicts between the family members can lead to discontinuity of the business. The large size of the Saudi family is considered as one of the main reasons for this. Hence, succession planning is necessary due to the huge number of children and grandchildren, in contrast to Western family business companies.

The more the family members, the more their heterogeneous thoughts and opinions can yield problems. In addition, there are sons-in-law and brothers-in-law who have an influence on family decisions, through influencing the decisions of daughters and sisters of the founder; thus the business should have a clear plan to manage such problems related to all the stakeholders.

The large size of these Saudi families is considered as a major obstacle they face at present time in comparison to American or European families where the number of business owners ranges between 2-5 people ...[NG5].

The succession plan regulates stakeholders' entrances and exits from the company, which could assist the future performance of the enterprise by reducing the conflicts and keeping the business activity in progress. Moreover, it clarifies the roles of those joining and leaving the business, if some members of the family will not join the company as shareholders for any reason. The Board of Directors of the closed joint stock family company has the authority to establish procedures through which the

shareholder can sell his/her shares exclusively to the company. This point reflects the influence of the Saudi culture, where the founder and the family prefer to keep the business within the family boundary to preserve their privacy as much as they can.

We transformed one of our companies into a joint stock company in which the Board of Directors took the responsibility for its management. We believe that this decision will keep our company from going into discontinuity as we have observed... [F2].

However, it appeared that the majority of the investors prefer to invest their savings in a public joint stock company which is based on family ownership. This is because in such a business, the government authorities and the company board of directors regulate it, which gives a clear vision without being affected by the death of the founder or one of the owners.

The deficiency of the succession plan can create uncertainty and an unclear vision of the future of the company in terms of development, performance and continuity, affecting the vision and decisions of stakeholders related to the business. An effective succession process requires determined aims and a timeline. More importantly, everyone associated with the process requires understanding of their roles and must be notified of possible transitions that will happen through the process. The evolving roles influence not only the founder and the successor but also others in the business and family, particularly those who have close relationships with the founder and the successor. For this reason, the planning requires potential effects on other stakeholders to be taken into consideration. Thus, the absence of succession plans in Saudi family firms, which in turn makes the stakeholders interact in a non-systematic way, cannot guarantee future continuity.

The succession plan is an important tool that gives a vision for the founders and the leaders about keeping their business and also as a strategy to develop their company. Moreover, such plan shields the company from destruction and contributes to its

growth. This kind of adaptability of the plan can help to avoid mistakes while capturing opportunities and increasing business activities also inspire others to join the company or run a business with it.

The plan protects the company from collapse and contributes to its growth. Adopting a plan can help to avoid mistakes, whilst seizing opportunities and expanding business activities. This sort of flexibility may encourage others to join the company or run business with it. At the end, we expand and progress ... [F5].

Furthermore, the succession plan is related directly to the next generations of the family, and particularly when they start joining the company, that can complicate the situation. As mentioned earlier, the lack of an appropriate succession plan has a detrimental effect on the family business; it can also lead the founder to deal with the new generation with doubt and discomfort, which could cause future uncertainty regarding their career journey. In turn, this could lead to a failure in the business because there is no willing successor to join the company and be ready to lead it in the future. In addition, it should be taken into account that the culture of the privacy in Saudi family that makes the founder unwilling to attract managers who are not related.

The lack of awareness and creation of an appropriate succession plan by family business founders has made them hesitate to offer me a role in the management of the company. It seems that they do not know how to deal with me. The future is not clear for me; I do not know what they want specifically from me... [NG1].

To summarise the main points, family companies in Saudi Arabia face a succession problem in terms of transferring the management and the power of the founding generation to the children, which threatens the future with the company. Moreover, the causes of succession problems have different forms, including conflicts among family members after founder's death. Moreover, the large number of members of the family has a significant role in the collapse of the company as disputes will occur if there is no plan that governs business and family relations. In addition, the complexity of the family

relations and diversity and different views may lead to potential problems in the absence of the system that protects the company and family at the same time.

The absence of the succession plan is directly reflected in the deficiency of the company's strategic plan, which can decrease its ability to compete in the market with rapid political and economic change, notably in the Arab Gulf region, where oil prices have decreased and political changes and wars threaten the stability of the region. Therefore, the family businesses in Saudi Arabia have to set and adopt a clear strategy. As a part of the company strategy, the lack of the succession plan can put the company at risk and lead to the loss.

One of the problems that arises from the absence of a succession plan is that the next generation will have a lack of clarity about their future in terms of the possibility to join the company, incentives and compensation, as well as, career development. Thus, this limits the desire of the next generation to work in the family company, which means that there is no heir to lead the company. However, if the family business wants to survive, someone has to assume the leadership role when the older generation retires or passes away. While this is theoretically understandable, in practice it can become a challenging situation.

The next section will discuss the forms of the succession plan which were found to be exercised in the Saudi family firms studied.

7.2.1 The Succession Process in Saudi Family Businesses

The results of the study indicate three types of succession adopted in Saudi family businesses. The first way is the planned succession (succession process), the second way is unplanned succession (single event succession), and the third way is the hidden succession.

The planned succession, for which work begins from an early time, passes through different stages. It is a process rather than an event. According to different sources in the literature, it is a multistage, energetic process that starts even before the successors enter the business (Handler, 1989; Churchill and Hatten, 1997; Murray, 2004; Mazzola et al., 2008; Palliam et al., 2011a), this described by this founder:

I started the preparation of my succession plan in 1998, and I put it into action in 1999. By that time my company was reorganised into a public joint - stock company and part of the shares were sold to shareholders. Currently, the company's managers possess only 53% ... [F1].

Succession as process includes the transfer of authority and power to the next generation, and also selecting, preparing and developing the successor to take responsibility for the company. In addition, it involves preparing and managing family members to accept future changes in the business. However, the succession plan requires setting the company's corporate governance which governs all the elements associated with business and family.

We transformed one of our companies into a joint stock company in which the Board of Directors took the responsibility for its management. We believe that this decision will keep our company from going into discontinuity as we have observed from others... [F2].

The necessity to convert family businesses into joint stock companies can, in turn, empower them to withstand global competitive pressures and to solve succession problem (Azzam, 2002). However, transforming into a joint stock company has both benefits and drawbacks. The benefits include access to new investment sources from inside and outside the country, which provides a way for expansion and development. Transforming into a public stock company gives the chance for the owner to assist cash flow by offering shares to the public to expand the company investments and the opportunity to enhance the company performance by offering shares to the employees that can reduce problems. Moreover, companies become more transparent in their

performance (Al-Barrak, 2005). However, going public may have some drawbacks, such as concerns about loss of authority and also losing the power over the decision making.

Nevertheless, one of the most considerable benefits for the family business in going public is to solve succession problem. In the case of Saudi Arabia, one of the interesting findings is that the participants agreed that transforming the company to become a public or closed joint stock company is the only way to survive. It is seen as the only way to regulate the company to avoid the aspects of succession problem discussed earlier. As pointed out previously, due to the uniqueness of family businesses and the complexity of the succession process it is impossible to apply a single model of family business succession for all family businesses (Sharma et al., 2003). However, in the case of the Saudi context many companies are engaged to one single model because they are still relatively in their first and second generations, which means that their experience is not sufficient to think about other methods of succession.

The second succession type adopted in Saudi family businesses is the single event succession which has been indicated in the literature. According to the literature, the succession occurs at the same time that the founder transfers leadership and ownership to the heir, automatically, without prior planning; that is a 'passing the baton' view (Sharma et al., 2001; Elamin and Alomaim, 2011).

As stated by the participants, according to their experience, there are substantial numbers of family businesses that have collapsed and disappeared because they were not ready to handle any changes in the economic environment. For example, between 1974 and 1985 there was a significant boost to the country's economy due to the oil price bubble. The Saudi government started a tremendous investment programme to build the infrastructure and a number of family businesses benefitted from the projects.

However, because the profits and turnover of the projects were very high they did not think about the future, and they did not adopt a continuous growth strategy to save their business in the future. Moreover, some founders of family businesses at that time did not plan for the succession or think about it. As a result, many companies fell and they do not exist anymore.

The single event succession shows the influence of the culture, as the founders practised an authoritarian management style; they were not using delegation, even for some tasks, not sharing the decision making nor accepting any opinions about the businesses.

Interestingly, the study has identified a third, unique, procedure governing the succession in Saudi family business, which comes in between the first type of succession, the planned one, and the second type, the unplanned succession. This is a type of succession called hidden succession.

The hidden succession plan occurs when the founder of the company has an awareness of the importance of the plan. However, the plan remains in his mind and no one knows about it. A founder who was asked about the plan replied:

We don't have a written family business succession and constitution but I do have principles in my mind that we will apply... [F4].

In contrast, when the children were asked about the future of the company, they replied that they did not have a clear idea of such plan, which leaves them with uncertainty about their career. It is clear that the impact of local culture, where the founder keeps the succession plan hidden and unwritten, can affect the future of the company associated with both the family life and business. In such a situation, the founder believed that if he revealed the plan, this could limit his authority and his ability to take or change the decisions according to his wishes. However, the founder controlling the business and the family supposes that sharing opinions and ideas with the family members can affect his dignity and weaken his personality, leading to them rejecting

his decisions in the future. For example, family members of one of the richest Saudi family businesses would not reject any decision taken by the older brother, the leader of the company, even if these decisions would lead to a large number of losses.

Moreover, the founder who is not delegating the business tasks and is controlling the day to day activity does not have enough time to set the future plan of company succession. He thinks about it but doesn't work for it: a succession plan is easy to think of, but implementation is hard.

Another important factor in this regard is that the founder may not offer a robust succession plan because Saudi Arabia practises *Sharia* law which consists of the Holy Koran and the teachings of the Prophet Mohammad called the Sunnah. Many decisions are made based on the *Sharia*: for example, the founder of a family business is only allowed to bequeath 1/3 of his business to whom he wants, but to the rest of the business is divided amongst his family, thus he knows that his wealth will be distributed based on the *Sharia* law, which is accepted by his inheritors. Islamic Inheritance Law is an obligatory comprehensive arrangement that manages the laws and rules to spread inheritance between all successors, with the intention to act justly to all levels and to avoid differences between successors. Because of that, the founder may not consider the plan for the future regarding the business succession, because the company is a part of the founder owner's wealth that will distributed by the Islamic inheritance law.

While a written business plan would be extremely advantageous to the succession process, most of the participants in the study stated that there were no plans in place. One possible explanation for the lack of clear planning was due to the limited communication between the founder and the next generation regarding business management, because of the founder's way of thinking was influenced by the culture in which the founder has high power and authority. In fact, many successors stated that

they wished they had more positive communication with the founder regarding business matters.

The proceeding discussion of the findings presents the influence and the role of the founder in setting the succession. The next section will discuss the role of the founder in preparing the succession plan in Saudi family businesses.

7.2.2 The founder's awareness is the key to success

From the results, it can be seen that the succession plan is one of most critical tasks that should be carried out by the founders and depends on their awareness of their responsibility towards this plan. Barnes and Hershon (1989) suggest that the individual most responsible for the continuity of the family business is the founder leader (Cater III and Justis, 2010).

It is confirmed that business succession is a process, not an event. It takes place over a duration of time, with planning, and probably with the main outcome of leadership being transferred from the founder to the one of the next generation. The difficulty confronting family business succession in Saudi Arabia is distinct from those in the West. While many family businesses in the United States and Europe complain about the lack of planning and inadequate transition time, in the Saudi case, family business succession rarely has a particular timeline when the formal leadership transfer takes place or when the successor becomes the new head of the business. An important reason for this is that family business plays a significant role in determining relationships among family members. Therefore, the fear of financial uncertainty or loss of respect from other family members drives many business founders to continue to exert their control over the management, even after the successor is appointed.

Moreover, cultural factors also have a substantial influence in the absence of succession planning. In Saudi culture, one of the most sensitive subjects to consider is a person's death or sudden departure. The topic becomes particularly more sensitive in a family context when a child proposes that his parents should plan for their exit and, consequently, for transferring the business control over to him/her. Consequently, because a major part of succession planning is addressing the transfer of power and authority, it is necessary that the founder leads the movement towards this change by setting the plan. It is accepted that founder has a significant role and responsibility to develop leadership aspects with regards to succession planning (Brant et al., 2008). Business continuity will be affected by an unsuccessful generational transfer. This can be due to a founder's narrow view of a business future when he shows unfeasible behaviour.

Moreover, in Saudi culture the leader of the family and the elderly are expected to be treated in a uniquely respectful way, as society encourages this behaviour and counts it as part of ethics and morals. Furthermore, if young people try to express their opinion in front of those people, they have to take care not to reject the leaders' opinions or object to their decisions. This is because society in general will criticise the children if they ask the family and business founder to prepare the succession plan or try to review his decisions, although such criticism can yield deep conflicts and destroy the relationship between both parties.

It was also believed that some of the conflicts are caused by the behaviour of the children towards their parents, who are the founding fathers of the business, where the children do not have respect for their fathers and do not treat their decisions in a polite way but instead try to express themselves strongly against these decisions. Some children think they have the right to dispute with their fathers' decisions because they

take part in managing of the business. However, from the Islamic ethics point of view the elderly people, especially the parents, must be treated in a polite way regarding their opinions, decisions, and other aspects of life. As stated in the literature, it is important to build and sustain healthy relationships between the founder and successors that depend on communication, and respectful interchange of information between the founder and the successor to seek successful succession (Gersick et al., 1999; Dyck et al., 2002; Cater III and Justis, 2010).

Today there is something that has become dangerous that I hope will not happen. Sometimes some of the children become disrespectful to the degree that they think of themselves in the role of their fathers in the company. Any person needs respect, especially the father... [F5]

In general, the founder is the one who has the greatest influence over executing the succession process, and choosing a successor (Handler, 1994; Sharma et al., 2003).

The founder's responsibility for the succession plan is considered as providing different forms of experience that can benefit the children to enhance their abilities in terms of communication, and problem-solving and increase their knowledge and experience regarding the business. In other words the founder should prepare and develop the next generation to be ready to take the lead of the company in future.

An effective succession process is typically about a mutual role in which the founder helps and is willing to develop the successor and share with him management control, while the successor demonstrates willingness to take on the leadership role (Handler, 1990). During the development, the founder must grant the successor increasing decision-making responsibility and believe the fact that errors happen as part of the training process (Handler, 1990), as agreed by this member of the new generation:

If he allows his children to take part in the management of the company and helps them to overcome mistakes and teaches them how to take proper decisions regarding the business of the company, this in turn would be very beneficial for the children as training for the future ... [NG8].

Through the founder's awareness and interest in formulating the succession plan he/she becomes reassured that the business will continue to grow and he/she will see the achievement of his/her efforts. The existence of a succession plan prompts the founder to accommodate the children of the family in his/her company and offers them opportunities to take more responsibility in the business, which reflects the intention of the founder to keep his/her business in the hands of his/her family in the future as one of his objectives, and the business standing successfully without him/her in the future. However, in the Saudi case it seems particularly significant, because the successful business that increases the wealth will also lead to increasing the family reputation and position in the society, meaning they will gain more social power as they can benefit from social and business networking.

Nonetheless, there is another side of the founders' lack of awareness of the importance of the succession plan. For example, it means they do not attract non-family professional employees from outside of the company to increase the businesses' managerial ability and to enhance the company growth. Moreover, the founders do not have the plan to form successful joint stock companies as supportive factors that can lead to a successful succession in the future. This is because the founder gives his/her consideration to the increase of his/her wealth and self-interest rather than focusing on the future continuity of the business that benefit all the family members. Moreover, a past successful period for the business might mislead the founder regarding the need to create a strategy to maintain the continuity of his/her business.

The significance of succession and business transfer is supported by the statistic that, according to a study completed by Barclays Bank (2002), it was found that 61% of the family business leaders did not know what the future of their business will be, and

only 16% are ready for the transfer (Westhead, 2003). As was found in the present study:

Some founders lack awareness of the importance of a succession plan for their business, which may include the participation of managers from outside the family or the creation of a successful joint-stock company to ensure continuity. This is because the founders pay their main attention to the accumulation of their own wealth rather than focusing on the future continuity of their business... [NG3].

To conclude, the founder's awareness of his/her role to construct the succession plan is vital for the family businesses in Saudi Arabia, providing him/her with a perception about how to develop the next generation in terms of communication, work experience and the managerial skills that are needed to lead the company in the future. However, the founder's actions regarding the succession tend to be influenced by the culture that can constrain him/her from formalising the plan. Moreover, one of the disadvantages of lack of awareness of the succession plan is that the founder is not accepting opinions about business matters nor attracting professional people to help him/her to lead the company.

The next section is about the success and failure factors that influence Saudi family business continuity.

7.2.3 The Success and Failure Factors of Saudi Family Businesses

Work in the private sector requires considerable effort and planning to acquire competitive advantages in the market. However, family businesses also need to expend significant effort to ensure the company continues across generations of the family to serve family goals. This section will discuss the results obtained from the study participants to obtain an in-depth understanding of the reasons that contribute to the success of the Saudi family business or for its failure to fulfill the objective of continuity.

7.2.3.1 Transforming the Family Business to a Public or Closed Joint Stock Company

Section 7.2.1 reviewed the transformation the family company to a closed or public joint stock company which participants viewed as the only way to ensure its continuation (see Appendix D).

According to the Islamic *Sharia* the money and the estate are distributed after the death of the founder among his/her family and all heirs agree to accept their share of the legacy because they believe in Islamic law. However, at the time of the owner's life he/she is controlling the company and the family, where he/she is the decision maker and sole operator. Moreover, he/she has the cultural power so that no one of the family members can reject his decisions, thus limiting conflicts.

The succession is done according to Sharia (Islamic) law by simple and clear procedures, which guarantee the succession process and thus the continuity of family companies ... [F1].

Nevertheless, the problems arise after the founder's death, if he/she did not set the succession plan or convert the business to a public or closed Joint Stock Company. These problems emerge because the ownership of the family businesses is a sensitive and challenging issue, due to the ongoing nature of transference from one generation to another particularly, in a Saudi case, where the family consists of large number of members from many branches. Moreover, according to the Sharia laws, any transfer of assets should be based on the fair value of the company. It is worth noting that ownership has its roles and duties, which is a challenging task facing family shareholders and business owners, where they need to take care to balance the interests of family members working in the business with those who own it (Kepner, 1991; Ward, 2001; Lumpkin et al., 2008; Basco, 2013).

However, to increase the flexibility in the transfer of ownership, it is recommended to find a trading system with the objective of organising and facilitating the processes of selling and buying the shares of the family members to other family members to avoid the risk of conflicts and to achieve the family goal by keeping the company in the family hands.

Transforming the family enterprises, from limited liability companies into closed joint stock companies, or to be joined under the umbrella of a holding company, and then, at a later stage, to be converted into a public joint stock companies includes taking advantage of the regulations and procedures clarifying and governing the operations of foundation and management.

From both the founders' and next generation's point of view as suggested in this study, the company becoming a public joint stock company is the only survival procedure to keep family business continuity and achieve a smooth transition between family members and a successful business. Moreover, they believe this shift will attract interest from other business leaders, creating a better reputation, and having a positive impact on their businesses.

Importantly, the company will continue its activity, where every one of the shareholders shows interest in the company. It is a challenge where transparency, professionalism and administration are necessary to preserve continuity in the business. Each shareholder can look at and analyse the company's activities and reports, assess the outcomes and compare its results with other companies. This would help shareholders in making their decision regarding the continuity in the market ... [F2].

In addition, companies in Saudi Arabia are motivated to go public in order to use the money raised for more development and growth. It is important to emphasise that, as Muslims, Saudis obey the rules and principles of Islam, forbidding its followers from dealing and trading with usury, "riba", or any additional money charged for use of money borrowed. Therefore, firms may prefer to raise funds from the stock market

rather than borrowing the necessary funding from financial institutions, who will impose interest on the money lent. Moreover, the process of going public could be improved if the decision makers in private firms' separate management from ownership and hire professionals to lead the companies.

Interestingly, the next generation participants expressed the view that to maintain the continuity of Saudi family businesses, it should be transformed into a public joint stock company, as the closed joint stock company will not achieve their survival. The implicit meaning behind this is related to the Saudi culture, which gives the founder the right to make decisions without a review by one of the family members. Any rejection or review will be accounted as disrespect towards the founder. For this reason, a shift to a joint stock company contributes to reduce and limit the founder's control and power to take decisions, such as control over the appointment of the next company leader, financial compensation, and the business development decisions. The reason is that the government agencies monitor the public joint stock companies and this includes the disclosure of the financial and administrative activities.

Only twenty per cent of family companies manage to maintain continuity when they are traded on the stock exchange. No matter the amount of conflicts that occur between the shareholders of the company. The Authority of the Money Market will solve these conflicts. These will include observers from the Ministry of Commerce. In addition to that, a director from outside the family is imposed by the regulations, which may be a benefit to solving conflicts...[NG6].

Conversely, the Saudi family business founders preferred to transform their business to become a closed joint stock company, to maintain privacy regarding their income and retain power and authority. Moreover, they believe the company will be secured from discontinuity in the future because it benefits from the regulations.

To conclude, transforming the company to become a joint stock company will contribute to the success in the future by facilitating the succession between generations.

However, the legal form of transformation the company to closed or public joint stock

company is the only way to ensure the succession in Saudi family businesses. The next factor involves the separation of strategic planning.

7.2.3.2 Strategic Planning vs. Cultural Power and Authority

The main importance of strategic management is the ability to provide organisations with the framework that helps them to improve their abilities to anticipate change and to deal with it. Strategic management also helps in developing the required abilities to deal with the uncertain future by identifying the steps needed to achieve the organisational objectives. Furthermore, it involves the need to analyse the internal and external data of the company and to work to maximise the return on the available resources of the company, compared to its objectives (Sirmon and Hitt, 2003).

Strategic planning allows the company to exploit its resources correctly, thereby enhancing its performance. As such, family businesses need to operate their resources effectively and engage in strategic planning in order to successfully compete in increasingly competitive environments (Eddleston et al., 2008a).

The strategic planning of the family business should be considered as a priority because it draws up the work plans that offer the company competitive capabilities, such as the integration with successful joint stock companies to support their continuity. This integration would help to achieve expansion and success and development for Saudi companies.

The increase in oil prices in the 2007-2008 period brought about a major change in the economy of Saudi Arabia. As a result of this increase, investment opportunities were created which led to economic and social success to many family businesses and allowed them to grow rapidly. However, the recent dramatic change in oil prices, the war and political problems in the Middle East and Arab Gulf region and the challenges of globalisation have also attracted new foreign investors and competitors to establish

businesses Saudi markets. Furthermore, the Saudi government may introduce plans to reduce expenditure. These factors will affect the Saudi family businesses and as a result of that they will need to adopt clear and strong strategies to survive.

There is a problem of centralisation of power in the hands of autocratic founders in Saudi family businesses, where the founder is taking all the main significant decisions, and in many cases, the detailed decisions, with his/her philosophy based on the extreme centralisation. This behaviour is a poor management style that could disincline the next generation from joining the business, because they might feel constrained. It makes the children hesitate to work for the company, while the family loses the chance of having one of its members assume leadership in the future. This is inconsistent with the vision of the founder, who wishes to keep the business under the family management.

The centralisation of management is a style that was adopted by the founding father of the business, because of that the next generation feel that they are not trusted nor allowed little chance to carry out decision making in the business...[NG1].

Many founders are accustomed to an authoritarian management style; in the past, they were the only decision makers in their business, but as times have changed, a new management style is required. These founders often consider all information relating to the business, especially in the early stages as secret and they do not involve anyone even the closest person to him. Consequently, professional managers will not join a company that includes high levels of centralisation, even if they are paid more highly than other companies. Innovative leaders should be sought after, by giving them more freedom to manage the business.

The founder centralisation reflects part of Saudi culture. Studies show that the business founders in the Arab world and GCC countries, particularly in Saudi Arabia, have large power distance, in particular because leaders are wealthy, religious and educated. These founders are elderly individuals, who have higher positions, authority and income than

their although the different level of relationship between people with each other (Hofstede et al., 1997; Mellahi, 2007; Branine, 2011; Elamin and Alomaim, 2011).

It can be seen from the interviews that the centralised management by founders in Saudi family businesses is perceived in a negative way, because it is thought to create discord between the founder and next generations and among next generations themselves. This may result in a lack of continuity in the family business.

However, the solution to minimise the founder's centralisation and to reduce the extent of the dominance of the founder is to transform the family business into a closed or public joint stock company, as explained above, which has an independent board of directors, which will reduce the founder's dominance in the decision making process.

Furthermore, it offers a greater chance of business continuity through mutual consultation and decision making between founders, next generations and all family members. The positive aspect of flexibility and decentralisation was described by the participants as a good opportunity to offer experience to the next generation of family members with regard to the business and how they deal with each other.

In summary, the centralisation of the founders has an adverse influence on the family business due to their absence of attention to the opinion of others and not permitting them to be associated with decision making. This might limit the next generation from joining the business and result in a lack of preparation for the next generation, and the lack of a ready successor. Accordingly, the only way to save the family business from discontinuity and to limit the founders from being the sole operators is by transforming the company into a closed or public joint stock company .

The next strategy is the separation of ownership of the company from its management, which is a major step towards the achievement of strategic planning for the continuation. Saudi family businesses are characterised by the significant size of their

members: for example, one of the participants said that the number of grandchildren was nearly 90; he also added that, in some cases, the family created projects to provide jobs for the family members. The interaction between the management and the ownership in the family business creates a competitive advantage for the family and the business, but may also cause substantial weaknesses. For example, at the time of succession between generations, conflict could lead to business failure (Schulze et al., 2003).

In section (3.5.2) Gersick et al. (1999) articulated a developmental model that includes the origins of the three-circle model of the family businesses, in which each of the three subsystems transfers over a sequence of stages over time. This model illustrates an inclusive and cohesive framework to appraise the interaction between the life cycle of the family business, the family, and ownership (Gersick et al., 1999). However, culturally, in Saudi Arabia, the leadership of the company is usually given to a male, preferably the oldest son but is not passed on to girls. The founders prefer to retain the company ownership and control inside the family and not to go out to external parties (such as daughters' husbands), although this is contrary to the provisions of Islamic *Sharia*. However, such a view is a strong trend among Saudi Arabian businessmen, which reflects the culture. This situation is also inconsistent with the global trend, particularly in the Western world, where the number of female business leaders is increasing steadily, together with their membership on the boards of directors, within the first generation or the subsequent generations in family businesses.

The separation of ownership from management would be beneficial for the family business and result in a competitive advantage in the Saudi Arabian private sector, as pointed out by a participant:

I did and still do urge my brothers, the founders of the company that we must adopt and turn to institutional strategic action and separate the ownership from

management. We should assign a specialist for the company who is qualified and professional to lead the company... [F5].

The separation of ownership from management is necessary because it is required to have an independent board of directors, independent executive directors, independent financial committees, an external audit and an internal audit, which could enhance transparency and achieve a unified system for development. Moreover, the transparency would lead to justice between all family and non-family members, encouraging them to work in harmony, as advocated by this founder:

The separation of ownership from management means that we pay a salary for the company director even though he is a family member. This means that he gets a salary only if he fulfils the job tasks, even if he is one of the owners, and can be held accountable based on his achievements. For clarity, I think that even senior staff should know that they are at the same level and equal to other staff in terms of assessment, consultation, transparency, participation in making decisions and professional and management development... [F3]

In addition, separating the ownership from the management is important because it is a factor that attracts professional leaders from outside the family members to lead the company, which increases the transparency and professionalism and the administrative capacity of the business.

There should be leaders from outside of family members. Attracting these outsiders who are well qualified should increase the transparency and professionalism and the administrative capacity of the company. ...[F1]

To summarise, the separation of ownership from management is important for Saudi companies because it increases transparency, controlling the founder power, and attracting professional leaders from outside the family. Moreover, it gives the chance to manage the family business through collective decision making rather than relying on individual decision making.

7.2.3.3 Corporate Governance: The Way of the Future

Approximately 90% of the major Gulf companies, were originally founded in the nature of the family business, mostly working outside modern regulatory legislation, particularly the regulations of Corporate Governance .

Corporate Governance determines the set of rules governing the guaranteed performance of the company management staff and maintains the rights of the shareholders, bondholders, stakeholders and employees of the company, through the implementation of contractual relationships, formulas and sound financial and accounting instruments, in accordance with the disclosure and transparency standards . The Capital Market Authority in the Saudi Kingdom has issued the supplementary rule of Corporate Governance, which contains stringent instructions, mostly relating to the aspect of separation between the management and ownership, and the financial and administrative separation between the various firms within the family group, as well as standards relating to the rules of the general review and disclosure, especially with regard to the transactions of related parties.

Although those rules and regulations are in the interest of the companies and raise their professional level, many of the members of these families, suspiciously consider these requirements of corporate governance to be in compliance with its work not organising it or ensuring its continuity. For these reasons, a good understanding of corporate governance is essential to take the necessary steps to raise the degree of professionalism and to establish the reality of continuity.

However, the absence of corporate governance may cause the collapse of such business. An example of bad corporate governance was that of Royal Ahold, a Dutch company, which had a dominating chief executive officer (CEO) whose decisions led the company to suffer a £500 million loss and the role of institutional investors was also suppressed

by having such a dominating CEO (Mallin, 2011). This was due to factors such as lack of working to separate the management from the ownership of the company. Other factors include the lack of regulation regarding the decision making, dividend distribution, the employment of next generation, and the determination of compensation and privileges of the family members; these issues have serious implications for the performance and professionalism of family businesses. Most of the next generation asserted that corporate governance should be obligatory, principally in managing the process of family members joining the company, compensation, incentives and decision making. They also raised the problem of the lack of justice between the family members. The lack of corporate governance regulating the sharing of jobs, compensation and ownership between family members could lead to injustice, which could be a reason to collapse.

Corporate governance must be applied specially to manage the criteria for joining the Board of Directors by family members. This forces family business owners to not make decisions individually with only their interests. Without corporate governance Saudi family businesses would be based on individual decisions... [NG3].

As stated before, the large number of Saudi Arabian family members in those families which have multiple branches needs to be controlled by corporate governance, to reduce the conflicts that could cause the discontinuity of the business.

Furthermore, one of the reasons for the absence of the corporate governance is that the founders are not aware of it or have no appetite to apply it because, as they believe, it will constrain their decision making power. However, the transparency of the monetary and commercial dealings, and preventing the individual interests coming before company interests are considered by the participants as important reasons to apply the corporate governance. The percentages of family businesses collapse are witness to this. Mallin (2007) states that an important aspect of corporate governance lies in ensuring

that an effective internal control system is adopted, and also that no one person or group has too much power over the decision making of the board.

Saudi family businesses need transparency and clarity between business partners concerning the family business projects and the transparency with other stakeholders. However, to apply that, they need to transfer the family enterprises, into private joint stock companies, or public joint stock companies as they include the restrictions and procedures clarifying and governing the operations of foundation and management and the requirements of corporate governance. Furthermore, using local and independent experts from outside the family on the boards of the family firms to determine the policies and strategies will assist this process.

7.2.3.4 The Preparation Plan for the Next Generation, and a Ready Successor

The potential successor refers to a family member who has the required attributes and readiness to take possibly over the family business. Family business researchers agree that successors need to be willing, able, and committed to taking over the family business (Handler, 1994; Chrisman et al., 2004b). As pointed out throughout this thesis, developing the children of the founder from an early time, and the existence of a ready successor is essential to ensure the family business can continue under the family management. A successful succession include a plan to develop the next generation to be ready to run the business in the future (Breton-Miller et al., 2004; Arregle et al., 2007).

Saudi family companies face a critical need for preparation and training of their children (potential successors) to provide them with capabilities that make them able to take the future responsibilities of the company. However, the next generation need

extensive care to enable them to be close to company's work, educating them about continuity, generosity, honesty and how to make an effort.

The preparation and training of the children is recognised as an essential role of the founder, which requires to be strategically designed to sustain the business. Interestingly, the children of founders believed that the father should take full responsibility to inspire, stimulate and develop his children to adopt high levels of self-independence and to increase their feeling of trust, which is an important factor for the success and continuity of the family business. One of the causes for Saudi family business collapse is the weakness in preparing the next generation. They must be trained and developed, which this is a challenging project that demands time and attention from the founder. This result is supported by the literature, which stresses that the individual most accountable for the continuity of the family business is the founder/leader because s/he has the aspiration to transfer the business to the next generation (Barnes and Hershon, 1994; Cater and Justis, 2009). The Saudi founders who were interviewed agreed that the education, training and experience are the main elements should be provided to the next generation to lead the family company to success in the future:

I prepared my son since he was thirteen to take over the responsibility (of the business), and I trained him for this purpose. Now, he is the CEO of the company. I afford twenty-five per cent of our work time to teach my children and to educate them to gain better competences... [F7]

Moreover, the founders asserted the importance of growing successors with the characteristics of discipline, manners, passion, ethics and respect. These characteristics reflect the culture of Saudi Arabia, as the family care about their reputation and following the traditions.

Additionally, the results of the study indicate the importance of a good relationship between the founder and the children. It was suggested this would make the children familiar with the founder's management style and motivate them to join the company

in the future. However, although the founders understand the significance of a healthy relationship with the next generation in regard to the business their way of dealing with the children regarding the preparation for leading the company is still not appropriate, and it is clear that many founders' style of management is affected by the Saudi culture. The quality of the relationship between the founder and successor promotes the practical transfer of knowledge needed for business continuity. As pointed out in the literature, successful succession planning occurs when the successors are qualified well for the succession process, relationships between family members are polite, and wealth transfer purposes are planned effectively (Morris et al., 1997; Wang et al., 2004).

Training the children to work in the business would require offering them the opportunity to exchange the roles with the founder to develop their abilities and skills, which will be reflected in their success. For this reason, if the founder has the aim of transferring the business on to the next generation he/she should prepare his/her children when they are young for that possibility. The best way to start this preparation is to form a link of trust and respect between the founder and child.

Dyck et al. (2002) argues that the effectiveness of succession depends on the appropriateness of the successors' skills and experiences, timing, method of achieving succession, and communication between the founder and successor. Moreover, the transfer of implicit knowledge, social networks, and social capital across generations are important for the succession (Duh, 2012).

However, the results indicate that, developing the next generation, in terms of education, skills, and experience do not guarantee their readiness to lead the company if their personality is not ready to take the responsibility, to ensure the succession and transition of the company to their control.

It is important that we prepare and train children for leadership. However, the most important point is that these children must be ready and willing to take

over responsibility, which from my point of view, depends on their personality. We cannot force them to take power... [F2]

This notion is supported by many authors in the literature, who argue that the succession might not be successful if the potential successor is not capable and does not have the essential skills to manage the family business.(Barach and Ganitsky, 1995; Astrachan et al., 2002; De Massis et al., 2008).

Some founders explained that the management of the business does not object to it being inherited, provided the successor meets the criteria to evaluate and approve that he/she can successfully lead the company.

Management of the company and the leadership conditions are not something to be inherited by the children unless they meet the criteria of leading the company such as skills, experience and knowledge... [F1]

Furthermore, the results show that some of the next generation are not willing to lead the company. Some of them prefer to have their private business, while others have another interest, such as teaching. Moreover, some of them do not wish to work with the founder as they think he/she will not offer them the chance to develop their career in future. Research showing a 70% rate of failure in family business succession emphasised that one of the biggest obstacles confronting family businesses is the lack of skilled and willing successors (Lansberg, 1988).

Qualified successors may debate whether to join a family firm for many reasons; for example some do not want to face the pressure and tension associated with working with family members, while others just have different career interests. Moreover, there may be concerns about the fairness of the decision-making process (Cater III and Justis, 2010).

Lack of motivation of a potential successor means that the successor is not enthusiastic to be the future leader of the company (Chrisman et al., 2004b). Succession can be

prevented when the successor rejects the leadership position, or the board of directors refuse to appoint him or her due, to his or her lack of motivation (Cespedes and Galford, 2004; Sharma, 2004; Zellweger et al., 2012).

The impact of culture upon the preparation of the next generation is considered an important factor in Saudi Arabia. The culture in Saudi Arabia is described as a collective culture, as the interest of the family is greater than and put before the interest of the individuals. For this reason, the family relationships that are intertwined with the company are affected dramatically.

Guides to life and business in Saudi Arabia are basically influenced by the Islamic religion, which promotes respect for elder family members and emphasises a father's authority within a family. Family members usually hold management and other key positions within organisations.

Additionally, tribal family traditions can further strengthen authoritarian management styles. However, they also usually support consultative management systems (Welsh and Raven, 2006) from this point of view, the role of the family meetings and gatherings in the education and preparation of the new generation is a major factor. However, the large size of the family and intermarriage between the family members is one of the most obvious relations with the Saudi family which is reflected in dealing with each other, and frequent communication between the members. Family involvement is considered a competitive advantage for the family business, because the family members share the same culture, values, and objectives. Due to family ties they trust each other, which leads them to share information securely. (Tokarczyk et al., 2007; Craig et al., 2008; Eddleston et al., 2008a; Lichtenthaler and Muethel, 2012; Shinnar et al., 2013).

Family social events and periodic meetings are great occasions to develop the next generation of the family members owning the business and transmit the family values and traditions. Additionally, family meetings provide an opportunity to transfer the practical experiences of family businesses to develop the new generation.

The family has informal meetings to encourage the positive relations between family members; to share values, raise opinions and ideas. This enhances communication between children. The meeting is used to explain the business in front of the new generation, to link them with the company. Moreover, communication between family members is part of the company's plans, where the children are encouraged to communicate with relatives from a young age. Training the new generation shows them that they are a part of the family, and they should take the responsibility of the family and work for its benefit.

The new generation holds some ideas, but because of the family traditions they cannot put these forward to the first generation. However, family meetings should break barriers and make closer ties between first and next generations and could give children the chance to express their opinions in front of the founders.

In summary, it can be concluded from the above that the lack of preparation plan will cause business discontinuity, because of the absence of the successor who can join the company and take over the management responsibility. However, skills, knowledge and experience are the main attributes that the successors should have to lead the company. Furthermore, although the founder has the significant role to develop the next generation from an early time, the readiness and willingness of the successor to join and take the lead of the company is an important factor in order to achieve a successful succession.

Moreover, it has been shown that family meetings are important in preparing the next generation, through sharing family values and traditions and increasing the family's common interest by enhancing communication to build mutual understanding and avoid conflicts. Avoiding disputes and conflicts between family members is an important factor, which is discussed in the next section.

7.2.3.5 Conflict and Dispute between Family Business Members

The family businesses will face difficulty when the family is considered as a stumbling block for continuity. Such a belief arises for a variety of reasons, such as the inability to resolve personal conflicts in the family, the absence of trust between members of the family because of the lack of transparency, strained family relations or the increasing reliance on the company to provide their needs and achieve their wishes .

Moreover, conflict, which is one of the obvious characteristics of human relationships, unfortunately becomes a frequent incident between the family members. The working of the family members together may increase family friction and may lead to aggravation of family problems such as competition among children or competition between generations of the family.

When the repeated and recurrent conflicts are not properly addressed and weaken the communication and trust between the family members, it will be difficult for these members to offer their thoughts freely and to discuss their joint matters or to take the decisions effectively. As stated above, conflict is inevitably common in family business (Alderson, 2009; Chrisman et al., 2012).

The absence of a succession plan and clear direction controlling all perspectives of the family business in relation to family members will cause conflict. Family companies in Saudi Arabia need to apply corporate governance and set clear regulations to reduce the conflict between the family members in regarding the criteria to join the business,

ownership, career progression, compensation and dividends. As discussed, the founders and next generation agreed that transforming the company into a joint stock company will reduce the conflict due to the regulations that have to be followed. Gerick et al. (1997) and Ward (1987) found that the poor succession rate is linked to conflict within the family business.

My children will not dispute but will continue to work with each other and will care about their company because I transformed my company to a joint stock company and each of them know their rights and shares... [F2]

Moreover, the lack of succession plan that results in a lack of transparency will lead to relationship conflicts between members, because there is perceived injustice and absence of the regulation that would give the rights to everyone who works at the company.

Harvey and Evans (1994) state that in family firms relationship conflict can arise from: “the dominant presence of the family setting the rules and having ultimate power, the lack of formalised systems and structures to deal with conflict, and having no formal organisational structure or operative systems and the co-mingling of business and family roles” (Harvey and Evans, 1994 p. 345). A participant gives this example:

I know an example that the oldest son of the founder helped his father to launch the business. However, he earned a stipend regarding this. After the father died he will have the amount of money given to him based on the Sharia laws of inheritance. Even though he will be given the same as his brothers, because his father did not apply the regulations, that would give the person who worked a privilege in contrast the ones who did not work. Because of this, this could be a problem that could lead to the dismantling of the company due to family disputes. This dispute may be settled either in the lifetime of the founder or after his death, although it would be better solved when he was alive. Some founders have told their sons who have helped them in launching the business that they would be given a salary as an employee and they would not own a part of the company or gain a portion of the profits. The founder states that the company is his alone and this leads to a feeling of injustice, sadly... [F6].

Thus the lack of succession plans and corporate governance have a negative impact on family business continuity because some members of the next generation may feel injustice and lack of fairness, which is likely to result in conflicts and the company's discontinuity. Trust, ruled by values of fairness and justice, is a positive aspect of the family system when investments and rights within the relationship are balanced and fair (Reiss, 1981).

The family unit in Saudi Arabia consists of an enormous number of members from different branches with deep and mixed relationships. However, as stated before, that can be a reason for conflict, for example because each one has his ideas, opinions, dreams, and goals. Nevertheless, it is hard to fulfil and accept all the members' needs as this can result in the company collapsing. However, the Saudi culture with the high power distance that has been provided to the leader or founder, gives full authority with which s/he can control the problems, as none of the family members can reject his or her decisions, so this can reduce the conflicts in this regard.

The increase of family members included and related in the business tends to trigger family conflicts that negatively affect the succession process. It been claimed that there is a connection between family member conflict increasing as the number of generations included as the firm develops (Sonfield and Lussier, 2004).

However, although the founder plays a vital role during his/her lifetime in reducing conflict, after his/her death considerable disagreement arises among the children. Where there is no succession plan, the children begin to fulfil their goals and desires even if this conflicts with the company's interest and the interest of others, which is because they were prevented from expressing their opinions and needs, and maybe did not get the chance to participate in the company activities, meaning they do not have any sense of attachment with the family company. For example, a large company in Saudi Arabia

was owned by a famous family, where founder had four wives and nearly fifty sons and daughters. During his life, he ran the company with full control and took decisions, with no disagreements between family members. However, when he died, huge conflicts occurred between his sons and daughters. Sadly, the company stopped working, and the issue went to the court. Finally, higher authorities intervened to resolve the dispute, to save the company and the national economy.

Culturally, the founder can be responsible for triggering the conflict between family members due to the dominant style of leadership, as the sole decision maker. It is clear that this type of leadership and unhealthy relationship between the founder and the rest of the family is likely to lead to succession failure (Sonfield and Lussier, 2004; Alderson, 2009).

The founder is also responsible for handling disputes with the new generation, and should deal wisely and accept the new generation's ideas, and understand their enthusiasm, to prepare them for the future.

Nevertheless, the responsibility for conflicts is mutual between the founder and the next generation. It is believed that some of the conflicts are caused by the reaction of the children to the founder. They do not respect the founder's decisions in a polite way and try to show express themselves strongly against these decisions. Some children assume that they have the freedom to oppose the founder's decisions because they take part in managing of the business. Dyer (1986) found that when the next generation is involved in the family business, they have motives and plans which conflict with those of the owners (Dyer and Handler, 1994; Poza et al., 2004).

Sometimes some of the children become disrespectful to the degree that they think of themselves in the role of their fathers in the company. Any person needs respect, especially the father... [F5]

The relationship between the family members is one of the most critical aspects that the Saudi family look after. The healthier a relationship is, the less the conflicts between the family members.

In summary interaction between family members in a friendly relationship is important to create a solid business depending on the family ties, because the family and business are related to each other and affect each other. Moreover, to keep a good relationship between the members of the family, the founders may make exceptional decisions against the regulations of the company, to sustain family ties. The collectivist oriented culture of Saudi community is characterised by trust and loyalty as evidenced by the appearance of strong and close groups. These groups are governed by customs and traditions of the society and individuals expect support from relatives and friends, therefore relations take a broader nature in society (Hofstede et al., 1997; Obeidat et al., 2012).

Moreover, the absence of succession plans and corporate governance has a negative impact on family business continuity because some members of the next generation may feel injustice and lack of fairness, which is likely to result in conflicts and the company's discontinuity. The high number of family members included and related to the business tends to trigger family conflicts that negatively affect the succession process. However, the responsibility for the conflicts is mutual between founder and the next generation depending on their behaviour. Good relationships between the members of the family and working to sustain family ties will reduce the conflicts. The next section deals with commitment to the ethical values and Islamic morals and legitimacy, and the role of philanthropy in sustaining the family business.

7.2.3.6 Commitment to the Ethical Values and Islamic Morals, Legitimacy and the Role of Philanthropy

Culture in Saudi Arabia is a combination of Islam with Arab traditions. Islam is the recognised religion throughout Saudi Arabia. Islamic teachings are so embedded in Saudi society and widely followed that it produces a fairly homogenous culture, as in most Middle Eastern nations (Adeyemi-Bello and Kincaid, 2012). The followers of Islam believe that it is more than faith in the mind: it is a comprehensive system of life because it goes beyond acts of worship to cover aspects of social and economic actions. Therefore, Islamic business ethics have an important application (Ali and Al-Owaihan, 2008). As Budhwar et al. (2010) point out:

The principles of work ethics and management in Islam derive from the Holy Quran, the sayings and practice of Prophet Mohammed. Many verses of the Quran speak about justice and honesty in trade, and courtesy and fairness in employment relationships, and also encourage humans to learn new skills and to strive to do good work which benefits both the individual and the community. Islam emphasises cooperation in work and consultation in making decision.(ibid., 2010 p.9)

The founders and the next generations of Saudi family companies believe that applying Islamic morals and ethical values, such as avoidance of deception, serving the family interest rather than individual interest, honesty and transparency, has considerable influence on the continuity of the businesses. These concepts will be reflected in the attitude of the people who work in the family companies, that need to work for long term goals to achieve success. The success is built on trust that is a fruit of honesty and transparency, which, in turn, will lead to successful succession, influenced by healthy relationships and limited conflicts.

As stated in the literature, trust is an intangible value governing human relationships, as every person cares about his or her community (Budhwar et al., 2010). Moreover, ethics and values are more obvious in Saudi culture, which is concerned about the family and

the individuals. This can reduce possible conflicts between the family and business systems and encourage trust and responsibility because the family business now benefits from the mutual values that are derived and agreed from the family and business values (Belardinelli, 2002; Koiranen, 2002; Sharma and Manikuttu, 2005).

As Muslims we should have a trust when dealing with others. Trust in morals. Trust to give others their rights and benefits, such as shareholders, partners and employees... [F1].

From another aspect, the lack of justice is a reason for conflict between family members. However, adopting honesty and transparency leads to increasing the presence of fairness and justice, which reduces conflict. That outcome could be achieved when the founder applies corporate governance.

The family business members indicated the importance of qualities taught by their religion (Islam) to avoid dealing with prohibited financial transactions such as usury/or interest /or *Riba*. They believed that undertaking such activities would harm their businesses, because it conflicts with the community interest that Islamic law encourages Muslims to care about. This means that there is a requirement to design an economy and society based on risk-sharing, fair dealing, and equity.

As stated In section (2.7.1) Islam presents a financial system built on the moral principles which promote justice, fair trade, equality and ethics in order to produce a healthy and supportive society, and, additionally, in general, to shield the poor debtor from the rich creditor (Khan, 2011).

The rest of this section will be directed to drawing attention to certain Islamic concepts that, from the point of view of the participants interviewed, have an impact upon the continuity of the Saudi family businesses. There is, however, little attention in the Western literature with regard to these Islamic concepts. Nevertheless, practising

Muslims consider such concepts as a core in their daily life and especially, in their business.

The core focus of the Islamic law is a vision of social development that requires all stakeholders to conduct themselves ethically and in a socially responsible manner (Elasrag, 2014). Khan (2011: p. 415-416) outlines several reasons to ban interest in Islamic Sharia such as it (Sharia) *'dislikes receiving monetary advantage without putting efforts or labouring, and strictly forbids such earnings (interest)'* as these *'earnings do not contribute to economic development and hence lead to inflation. The lender receives this profit irrespective of the fact whether borrower actually gained profit or not.'* Hence, there can be no doubt that the payment of something definite in return for something uncertain inflicts a wrong.

Because Islamic finance is based on prohibition of interest, the *Sharia* has devised interest free debt and equity based products such as *Musharakah* (joint venture), and *Murabaha* (trust financing), which are equity-like products based on profit and loss sharing mechanisms (Khan, 2011: 416). The descriptions of these Islamic products are, of course, detailed in other sources.

Family business members follow Islamic law, as stated before. The participants who were interviewed in this study believe that avoiding dealing with forbidden financial transactions such as Usury/ *Riba* contribute to protecting the business from the discontinuity, because they believe that, by following God's (ALLAH's) instructions they and their business will achieve success as a reward.

This belief creates a positive feeling that is reflected in the relations between family members and also results in the stability of the company, leading to continued success. It is evident that when the owners of family businesses and their sons in Saudi Arabia

conduct their business within the framework of the religious and moral teachings, this leads to survival and success.

Another factor is the importance of philanthropy, and payment of legal obligations such as *Zakat* is factor of success. The payment of *Zakat*, in particular, is seen as a blessed activity that leads to the growth and continuity of family business.

I always pay Zakat because it is an important issue according to the Sharia law. It is one of the reasons of my company's growth and blessing... [F6]

Zakat is the third pillar of Islam, and it is an important form of religiously mandated charity. In the Holy Quran, the term *zakat* is mentioned 70 times, together with the prayers. Thus, Muslims, based on the Sharia law, are requested to give *Zakat*, which is believed to accomplish certain significant aims, such as purification the wealth from all sins, an instrument of social justice and poverty eradication in society (Al-Ajmi et al., 2009; Dhar, 2013; Htay et al., 2014; Rajak, 2014). *Zakat* plays an important role in promoting social justice as well as alleviating poverty. Moreover, it is the means of establishing a real sense of sincerity and accountability for the wealthy, in addition to creating a positive significance in nation-building among the needy people (Htay et al., 2014).

According to Abu Bakar (2007) *Zakat* can be considered as a unique mechanism of compulsory transfers of income and wealth from rich people to poor, in order to ensure a minimum means of livelihood, which in turn provides social prosperity and a secure environment in the society (Bakar and Rahman, 2007).

Htay et al. (2013: 172) define *Zakat*, as "*the amount of money or kind taken from specific types of wealth when they reach a specific amount at a specific time which must be spent on specific categories in specific ways*". In other point of view, Al-Ajmi et al. (2009: 461) explain that *Zakat* can be considered as a '*corporate taxation levied on wealth that remains idle and unused by the business for the whole Islamic calendar year*'.

Each Muslim should pay 2.5% of his/her capital, taking into account that the needs of his/her family have been fulfilled (Al-Ajmi et al., 2009). Nevertheless, as Dhar (2013) states, one can still donate an additional amount, as an act of voluntary charity but *Zakat* is fundamental to every Muslim.

Zakat is considered as a means of contribution to the social justice and sharing benefits and prosperity with those needy people within the community (Rajak, 2014). It cannot be regarded as a favour. Moreover, *Zakat*, is based on good intention, removes greed, selfishness, envy and purifies a Muslim's soul. It was narrated in the Quran that, Allah says “*whatever is paid as Zakat for the sake of Allah shall be rewarded manifold*”. For this reason, *Zakat* is considered as an act that brings mutual benefits to those who give and those who receive (Bakar and Rahman, 2007; Al-Ajmi et al., 2009; Dhar, 2013; Htay et al., 2014; Rajak, 2014).

It is generally agreed that philanthropy and charitable endowment contribute to delaying conflicts and solving problems by setting a charity organisation to strengthen family ties

We thought to create a big project between grandsons and granddaughters; we decided to put a charity project adopt a certain number of orphans, and every month we visit the houses which are in need. Every time a number of grandchildren were involved in the delivery of charity to the needy. This action of the charity project makes a strong link between the next generations, in my opinion this project will ensure a strong family link because good deeds always bring good results. I think that charitable activities bring together more than divide, dissolve differences and encourage more understanding... [NG2].

The necessity of paying *Zakat* is that it blesses the remaining money and thus contributes to obtaining new business opportunities and the growth of the remaining wealth. Moreover, philanthropy and charitable activities are also reflected in the good reputation and prestige of the family and the company at the same time. This in turn will induce social and commercial acceptance, and consequently the company becomes a desirable target for others to deal and work with.

Another important value is respecting parents, which, together with keeping ties and good relationships with family is encouraged by the Islamic religion. Moreover, most participants pointed to the positive impact upon the continuity of family business when they fulfil the ethical and moral values of Islam regarding the aspect of obedience to their parents, and keeping and observing ties of kinship.

One of the main Muslim beliefs is that families and kinship are the cornerstones of their life. According to Koenig and Al Shohaib (2014), based on the Islamic *Sharia*, taking care of family members is a primary responsibility of both the individual and the community. The first-degree family members, such as parents, spouse and children, are especially important for moral and financial support. On many occasions, the Qur'an stresses respect for parents, particularly when they are old. Koenig and Al Shohaib (2014: 39) add that *"Islam emphasises that children should avoid upsetting aging parents about anything either major or minor"*. As reflected in many Quranic verses, God rewards generously those who take care and support their relatives (Koenig and Al Shohaib, 2014).

Respondent F6 stated:

I believe that honouring one's parents is an important reason for success. My success is based on God's blessing and then the honouring of my mother. I believe that without the blessing of my mother I wouldn't have the wealth that I have now. Thanks to God, I am now comfortable and healthy. I was also good with my father until he died... [F6]

According to Kandehlawi (2010) there are many encouraging rewards that are promised in the Holy Qur'an and by Prophet Muhammad regarding the maintaining of family ties. However, punishments are indicated for breaking relationships. The Prophet Muhammad puts much emphasis on maintaining family ties, *"Learn your lineage so that you may maintain family ties. By doing so your family love will increase, your wealth will expand, and lifespan will be blessed."* (Kandehlawi, 2010). Generally, the

Islamic perspective regarding observing family ties is that there is no good deed the reward of which comes faster, than being good to one's family and there is no sin greater than the breaking of family ties in respect of punishment in this life and in the afterlife (Kandehlawi, 2010).

Bearing in mind the rewards promised from maintaining family ties, and especially taking care of relatives, Muslims, usually, do their best to fulfil these ties. Generally, to understand this issue, the influence of culture and religion in the choice and responses of Muslims are discussed by authors such Hofstede (2001) who says that such culture, may encourage individuals to take decisions or options for purely, social and religious ideals.

For better clarification, see Hofstede and Hofstede (2001). Klassen et al. (2011) argue that in individualist settings, such as Western communities, more attention appears to be given to motivators that are self-focused, but in collectivist settings, such as Arab and Muslim countries, there appears to be more focus on motivators that refer to group referents, such as family or religious values (Klassen et al., 2011).

"Whoever would like his provision in this world to be increased and his life span to be extended let him uphold the ties of kinship." If he keeps the ties of kinship with poor and rich of family members, and shares with them some of his company products or from his money, consequently, there are no doubts that they will pray for him and for his business, which will attract God's blessings... [F6]

In summary, most of the participants indicated the importance of observing the financial commitments that are commended by *Sharia* such as paying *Zakat*, and avoiding usury, which has a positive impact upon the continuity of the family business in the future. Moreover, they mentioned the importance of honouring parents and keeping the ties of kinship and helping them financially and dealing in business with honesty and transparency with all stakeholders.

To conclude, the study indicates that there is a succession problem facing Saudi family businesses. Moreover, one of the interesting findings is that the perception of the succession in Saudi Arabia is just to transfer the family company to a joint stock company, because it is monitored and regulated by some commercial agencies, and laws and regulations .

Likewise, the founder is responsible for setting the succession plan for the family business where the awareness of the founder has a main role and he is one of the main reasons for family business failure. Moreover, the founder should take care of preparing a plan to develop the next generation.

Furthermore, the study has presented the factors that influence family business succession in Saudi Arabia. Such factors include: 1) Transforming the family business to a public or closed joint stock company. 2) The strategic planning vs. cultural power, and authority. 3) Corporate governance of the family business and the way to the future. 4) The preparation plan for the next generation, and a ready successor. 5) The impacts of the conflict between family business members. 6) The commitment to the ethical values and Islamic morals and legitimacy, and the role of philanthropy.

As discussed, the next generation of the family has a significant role in the success of the succession plan. However, the next generation needs to be developed. The next section is concern with the preparation plan of the next generation of the family business in Saudi Arabia.

7.3 The vision of tomorrow: the next generation preparation plan

One of the critical success factors of the succession plan to ensure the company's survival is developing the next generations to serve the family business in the future.

The successful succession includes the development and improvement of the successor's knowledge, skills and experience (Breton-Miller et al., 2004).

From the literature review it was established that there is a general consensus that the preparation plan starts from an early age and includes education in ethics, acquisition of a university degree, and gaining practical experience outside and within the company along with professional training. This will deliver a competitive advantage to the family company among business organisations in the private economy sector in Saudi Arabia. However, the founder should take the responsibility to develop and prepare the next generation. For example, Day (2001) claims that top management is responsible for training and developing future leaders in order for them to deal with unpredictable problems and difficulties which can threaten business continuity.

One of the interesting results from the study is that the founders of the Saudi company assume that the education and training of the new generation are reflected in the success of the business from another angle. Based on their point of view, an educated and experienced successor can obtain several opportunities outside the family company. This might lead to a reduction of overcrowding the family business, in getting a job, because the next generation is well prepared, which gives them the chance to work outside the company. Moreover, in turn, this can limit conflicts between family members, as well as improving the quality of decisions that could otherwise damage the interests of the company when it is an intersection with the individuals.

7.3.1 The Role of the Early Education of the Ethics and Values

Developing children is a strategic effort and an essential role of the founder to maintain their business in the future. The education should start at an early stage of a child's life to inculcate concepts in general, and Saudi culture is mixed with Islamic principles and

Arab traditions, which encourage the parents to raise their children with good ethics and values.

The Islamic perspective regarding education is that it represents a kind of worship, and an essential requisite to reach perfection in worshipping God, according to the best knowledge (Alavi, 2007). Interestingly, it appears that, generally, there is nothing else in Islamic teaching as important as teaching morality and good behaviour. As pointed out by Alavi (2007), one quarter of the verses of the Holy Qur'an relate to ethics and how to apply morals. Morality is "*a stable state of the soul by which it is possible for a person to do good works easily and immediately*" (as defined by Al-Ghazali in Alavi, 2007: 313).

As stated in the success factors, the founders and next generation agreed that the role of the ethics and values derived from Islam is important in the preparation plan. Moreover, it has a direct relation to the continuity of Saudi family businesses by strengthening the family ties and reducing sources of conflicts. For example:

The children show respect for senior family members, and older family members show kindness to their descendants. Family secrets remain among family members, and family disputes and problems neither remain in the family boundaries nor are seen from those outside the family.... The founder adds: that the interaction between family members is based on honesty, transparency, respect and justice...[F3].

Moreover, dealing with people in a proper way is fundamental to acquire the social skills needed for the children who will lead the company in future, which is reflected in the business's survival. However, such skills should be encouraged from an early time, and the founder should teach them.

The asset that you have learned from your religion (Islam) must be delivered to your children; respect for others, respect for any race and any religion. I learned many things from my religion; I learned many things from the Holy Quran. I learned the ethics of work and the ethics of dealing with others. However, these essential elements need to be applied... [F1]

The duty of parents and teachers is to help children to acquire proper education and be on the straight path, and then it is children's responsibility to do well and stay away from wrong. As also indicated by Alavi (2007), the role of parents is considered particularly significant. Parents have a big responsibility in developing many aspects of their children's lives, as they are responsible for their education, traditions, beliefs and ethical practices (Alavi, 2007).

Furthermore, the founder should work to show his/her children a good model and example of wisdom, sincerity in working and good behaviour. This model can be an experienced person from within the family or others.

Another aspect of early education is to give the children chance of experiencing the business life. The founder should have a plan to educate the children about business, to increase the familiarity with it by talking about it, and taking them to the company building that can enhance the relation between the company and the children which, in turn can affect the continuity of the business; without such education the new generation of family members might be without distinctive capabilities or ambition regarding the future of the business.

To conclude, the preparation plan is essential for the next generation as it is related to the success of business succession and continuity. Moreover, the preparation for next generation should be from an early age of the children and dependent on ethics and values derived from Islam, and the founder is responsible for delivering it. Moreover, the founders and the leaders of the companies have a great influence over the next generation, as role models to be followed and respected. Moreover, Islamic ethics and values are playing a major role in educating the next generation and developing them which would enhance their personality. Moreover, it reduces the sources of conflicts

between family members because it enhances the morality, respect, and concern for family ties, which are strong factors to maintain the business in the future.

7.3.2 The Successor's Formal Education

Formal education is observed as an essential for readiness to join the company. In family businesses, getting a proper and quality education is connected to a successful succession. It is confirmed in the literature that education can provide the successors with talent to understand management ideas, and use them to seize opportunities and increase growth in their business (Davidsson and Honig, 2003; Dimov and Shepherd, 2005).

Most of the founders and next generation members indicated that formal education has a great role in developing the successor. However, some founders also stated that education and selection of an appropriate scientific discipline should be connected to the businesses' industry, which benefits both the successor as the future leader and the company's development, to contribute to its continuation and success. Moreover, the successors with appropriate education might have more ability to manage business difficulties, such as increased rivalry and market pressures. It is worth noting that all the founders preferred their children to get a university degree, and some encouraged their children to get a postgraduate degree.

The children are advised to study a bachelor degree in engineering and get a master's degree in business administration...[F6].

We have established a family office for external training and education, which communicates with international universities regarding our next generation formal education.

The Family Office helps our next generation to select the appropriate courses to study to enhance their future and also their compatibility with our company and business requirements...[F1].

However, the formal education might be not enough to make the successors more equipped to lead. Most of the founders and some next generation agreed that not all children have the capabilities and abilities to learn the necessary skills and take the responsibility of the business in the future. Therefore, the founder should discover ,evaluate, and select the next generation regarding their readiness.

But there is no guarantee that they are able and willing to assume the responsibility of the company ... [F2].

It is not necessarily that a good education and training creates a suitable generation to work and lead the family business... [NG8].

Some interesting findings regarding the roles of formal education emerged from the next generation and the founders. From the next generation's point of view, education is not an important condition to join the business and will not make an influential difference. This is because they believe the founders are not aware of the importance of education as a tool, due to the absence of awareness of the founder about the future of the company. One possible reason for this lack of awareness is that the founder focuses on his/ her own interest more than the company's interest. Moreover, the lack of awareness emerges when the founder avoids applying corporate governance that includes the regulation of the criteria regarding the next generation joining the company. This point can be a source of conflict between the family members because some of them perceive it as a lack of fairness and justice, particularly those who achieved an educational degree.

There is no specific and standard requirement of education or experience to join the family business. The reason is that every one of the founders wanted to appoint his son to a managerial position even when he is not qualified...[NG3].

Consequently, some of the founders said that there should be no necessity for formal education or a degree to join the company because the children have the right to have job opportunities in their family company. Furthermore, some founders supported the

same point, claiming that work experience is more important than qualifications. However, this position is justified, culturally. The collectivist culture in Saudi Arabia is seeking to assist and satisfy the family needs and increase the mutual benefits before the individual's needs. Another reason, supported by the literature, is that the founder creates the business to support his/her family with no conditions, and that because the uniqueness of the family business is created by the unity between the family and the business. According to Muske and Fitzgerald (2006) the family and business are mutually supportive providing the requirement for both of them.

The next generation has the right to join and work in the company if there are some job opportunities with no qualifications... [F5].

Achieving a university degree is not a requirement to work in the company although practical experience is the foundation to work in the company... [F2].

To summarise, formal education is recognised as indispensable for the readiness of the successor to join the company. In family businesses, getting a proper and quality education is connected to a successful succession.

However, some participants look at education as a requirement to join the company whilst others do not. Most participants also agreed that work experience is more important than the formal education and a crucial element required for the next generation to join the company. However, some believed that the next generation has the right to have a job opportunity in the family company with no conditions.

The next section deals with the role of the experience and skills that the successor should obtain to be ready to join the family business. As discussed above, education alone is not considered enough but should be combined with work experience.

7.3.3 The Successor's Experience

Work experience was viewed as an influential aspect of the successor's management skills and leadership development. The study found that the founders and next generation referred to two levels of preparation that should be targeted to develop the children in relation to the business. The first level is from childhood, before joining the business officially. It is important to inspire the next generation by providing them the opportunities to exercise some tasks and responsibilities in order to train and prepare them for future. According to the literature training from childhood has a remarkable impact on preparing the next generation for the company's future by giving them the opportunity to express their abilities. In addition to that, the founder should develop a good relationship with the successor as it facilitates the transition of family values to the next generation, which, in turn, can increase their interest in working in the company. Conversely, a weak relationship between founder and successor will limit the opportunities that should be provided to the successor in order to succeed (Groves, 2007).

The importance of experiment was given to my children; an opportunity for the new generation is necessary. We give our children a certain budget to teach them how to develop a small financial budget ... [F1].

I gave them the responsibility to build their trust and to motivate them to be future leaders ... [F7]

The second level is divided into phases. The first is phase one, when the next generation were still studying to get the formal education degree and they join the business informally. This should offer them the chance to observe the company activities. However, the founder gives the next generation some primary tasks under his supervision, for the purpose of training and building his/her confidence. This is an important phase, where the relationship between the founder and next generation moves

to an advanced level that can allow both parties to shape a vision for the future. Moreover, it is a good opportunity for the founder to assess the next generation's ability to be a future leader of the business. All the successors in this study entered into their family business earlier, before joining formally. Thus those successors who had spent a reasonable time in the company gained a better understanding and a more objective view of the organisation. However, in this phase there is no clear plan introduced to the next generation that should be followed to target specific goals.

Interestingly, some time ago, Longenecker and Schoen (1978) suggested a framework which is to some extent similar to the findings of this study. In their framework, the first stage is the pre-business stage, when the successor is only aware of some facets of the organisation and has limited critical information. The second is the introductory stage, where the successor has not worked even on a part-time basis in the business.

The second phase is from the second level, when the next generation joins the business officially. Training of the new generation under the supervision of the founder of the family business leads to positive results in the future of the children and the future of the company. However, some companies request the members of the new generation to work for a number of years in other companies with high quality experience.

The children can join the family company if they worked for three to five years in other companies in the market to gain experience for several years. Moreover, the next generation should be offered a promotion in the place where they work and then we give them an offer to join the family business...[F2].

Training the new generation outside the company can lead to the formation of their loyalty and dedication to their family company, because they would have tried working in another place, in contrast with their family company where they are part of and related to the top management.

If you want to attract the new generation of family members to work in the company and continue then they must be trained outside the family business to know the differences between the work outside and inside the family company.

This grows and develops part of their loyalty if they try to work for another company. They will also value working in their family company... [F4].

Moreover, some founders argue that a part of their role of supervision regarding the development the next generation is supporting him/her to work in selected companies, so that his/her experience is reflected in the development and continuation of their family businesses. However, the role of the founder to select a specific company for his children to work in it might be influenced by his/her managerial style that depends on the high power distance culture. Nevertheless, it might be influenced by the founder's vision to employ his/her successor in a place that serves his/her business strategy. Some founders explain this point; they chose high-profile businesses such as banks and telecommunication companies to train their successor, because these kinds of enterprises will equip the successor with discipline, a high level of experience and quality networking that enhances the next generation social skills which can benefit the family company in the future. According to Blundell et al., (1999) the family business can benefit from external training of a likely successor candidate when he/she has worked/trained in another business organisation. Thus the family business will not incur investment costs (Blundell et al., 1999). Work outside the company gives the successor the opportunity to develop greater skills and beneficial behaviour. For example, working with different employees within different conditions can increase the understanding of change in a business environment which is essential for family business strategy (Datta et al., 2005).

The study found that some successors start their career path after getting the formal education degree, without pre-experience. Instead of that they have been trained in the family company where they start working This can be developed inside or outside of the business and this approach is supported by Kerr and Jackofsky (1989) and Lubatkin et al. (2006). Thus, the expected reason behind that is the founder does not have time to

remain without manager/ employee until the successor trained outside the business. At the same time, the founder is not willing to attract managers from outside the family, because culturally, in Saudi Arabia, the founder prefers to keep his/her business details private. Moreover, another reason is that the founder assumes that the company should provide job opportunities to the family members to support them financially and to give them social acceptance.

To conclude, work experience is a powerful element to develop successors' management skills and competencies to achieve the company success. The study found that there is a need to develop the experience from childhood that gives the next generation the possibility to become familiar with the business even from an early age. Moreover, it gives the founder and next generation the chance to create a good relationship. Thus, it is vital to transmit the family values and to present an appropriate level of knowledge for the children and essential to develop them.

Moreover, Saudi family successors have two phases to develop their experience; the first phase, when the next generation are still studying to get the formal education degree. However, they start to join the business informally. It is a great opportunity for the founder to evaluate the next generation's talent to join the company in the future as a leader. Despite, in this phase there is no clear plan introduced to the next generation that follows a targeted specific goal. In the second phase, the successors join the business officially and they have been trained under the founder's supervision.

The successor, before he/she joins the business, should have outside experience that is restricted by work for a number of years in other companies with a high-quality experience. The successors in family businesses normally have the possibility to become familiar with the business even before they join formally. Their pre-

professional experience in the company can have a notable impact on how they perceive the organisational culture and develop business competencies.

This study suggests that the perception of organisational culture and business skills is essential to the successors' readiness to understand the leadership role and must be designed in advance, even before the successors join the company formally. The founder should assume an on-going role in affording the successors with the opportunity to develop fundamental skills and understanding of organisational culture. It was found that, when the successor enters the business from an early stage, this will help to develop him/her professionally and also increase his/her engagement and commitment to the family business.

7.3.4 The Successors' Willingness to Join the Family Business

The study shows that most of the qualified successors will join the family company and work for it, even though they might be not satisfied. For cultural reasons, the successor who is engaged to the family traditions will find him/herself forced to accept working with the founder as part of his/her commitment to the family. Interestingly, not one of the next generation showed a willingness to discuss ownership aspects, as it is a sensitive matter when it comes to the discussion about financial matters. Therefore, starting a conversation about ownership with the founders or with the family leader seems to be odd and is not acceptable. The successors who were working at the company were offered compensation according to the company regulations. However, ownership was not part of the compensation that should be given to the next generation to attract them to work for the company.

The next generation will not have any part of the company ownership unless it is through his father's ownership. Whilst if he is an employee he will receive compensation and salary like others who work in the company ... [F3]

The findings of the study indicate that the successors had an interest in working for other companies, in order to have their own career path and establish a private business. Nevertheless, the cultural force is greater than their vision. Moreover, the successor might not have the chance to exercise some sort of decision making, because the founder controls every single event and decision in the company and shows unwillingness to give a chance to the next generation to participate in the decision making process (Eisenhardt and Bourgeois III, 1988; Lansberg, 1988; Kellermanns and Eddleston, 2004).

On the other hand, however, some founders encouraged their children to start up private business alongside their working in the family company, and supported them, to some degree.

To sum up the findings related to the factors influencing the successors to keep working at their family businesses in Saudi Arabia, the main findings show the intention of the founders to retire while some of them plan to retire and have other social responsibilities and other interests to fulfil. However, others do not have or execute a retirement plan and both the founders and the next generation agreed to pass the leadership to their next generations. The other findings are the factors that attract the successors to work and to continue working in their family business in Saudi Arabia, such as adequate compensation and promotions that shape their career path in the future and also giving the successors the choice to have their own business whilst working in the family business.

7.4 Summary

This chapter discussed the findings obtained from analysis of the data gathered using the interview, to address the research questions and to achieve the study objectives.

The objectives of the study are to discover the succession process of the family business in Saudi Arabia. The second objective is to investigate the role of the founder in the succession process. And the third objective is to identify the causes that might lead to success or failure of the continuity of Saudi family businesses.

To conclude, the study indicates that there is a succession problem facing Saudi family businesses. Moreover, one of the interesting findings is that the perception of the succession in Saudi Arabia is just to transfer the family business to a joint stock company. Likewise, the founder is responsible for setting the succession plan for the family business. Moreover, the founder should take care of preparing a plan to develop the next generation. Furthermore, the study identified the factors that influence family business succession and continuity in Saudi Arabia.

It was also found that the family business is strongly influenced by the Saudi context concerning culture, Islamic ethics and values.

The fourth objective is to identify the impact of the next generation preparation programme over the continuity of family firms in Saudi Arabia. A formal education is recognised as an essential for the readiness of the successor to join the company. In family businesses, getting a proper and quality education is connected to a successful succession. Furthermore, work experience is a powerful element that develops successor's management skills and competencies to achieve company success. The study found that there is a need to improve the experience from early childhood. The next chapter summarises the research and presents conclusions and suggestions for future research.

CHAPTER EIGHT

Summary, Conclusions and Suggestions for Future Research

8 Research Conclusion

8.1 Introduction

The preceding chapter presented a discussion of the results, in the context of Saudi Arabia and the research question, based on the study framework extracted from the literature on the family businesses. This chapter presents a summary of the main findings and a discussion of the extent to which the objectives of the study have been achieved. The contribution of this study to knowledge and practice is described. Finally, the limitations of the study are defined and followed by suggestions for future research.

8.2 Summary of the study

The goal of the study is to focus on the family businesses in Saudi Arabia in terms of the continuity ensured by transferring the power and management of the company to the next generation. Moreover, to enhance understanding the family business in the Saudi Arabian context, it investigates the factors that might influence the succession process.

Family businesses are the traditional general model of business, and among the most popular organisations in the world (Pistrui et al., 2000; Olson et al., 2003; Astrachan, 2010; Carr and Bateman, 2010; Gupta et al., 2011). Family firms play a significant role in the macroeconomy and also provide substantial assets to the micro economy (Davis, 1983; Muske and Fitzgerald, 2006; Oukil and Al-Khalifah, 2012). These businesses play an important role both in developing and developed economies (Gomez-Mejia et al., 2003; Sharma, 2004; Collins and O'Regan, 2011).

Family businesses have undertaken a vital role in the markets of Asia, and it is predicted that such companies will continue to preserve the same level of importance for the

majority of countries (Miller and Le Breton-Miller, 2005; Miller et al., 2007). Moreover, due to the Impact of family businesses their significance as a subject of research that needs extensive investigation has been widely acknowledged (Chrisman et al., 2006; Yu et al., 2012).

There are around 5,000 medium to large family firms in the Middle East, with net assets totalling USD 600 billion, composing 75% of the private sector economy and employing about 70% of the labour force in the Gulf Cooperation Council (GCC) region. Moreover, family businesses are a key component of the private sector, which comprises around 95% of total Saudi companies (Achoui, 2007). Family businesses in Saudi Arabia compose 48% of the enterprises in the Middle East and North Africa region, with Saudi families having 60% of the cumulative wealth (Al Masah Capital Management Limited 2011). According to the Saudi Chamber of Commerce, family businesses in Saudi Arabia are considered to hold around 250 SR billions in domestic investment (almost a quarter of the Kingdom's Gross Domestic Product (GDP), with the majority of franchises and agencies owned by the leading 100 Saudi family companies (Ramady and Sohail, 2010). Keeping of the family business is indispensable, and possible through the management of both the family and the business aspects that represent the business as a 'family business' (Chrisman et al., 2012). The family has the passion for maintaining family control of the business across generations and it is significantly reliant on the completion of the transition manner to next generations (Chrisman et al., 2004b; Bocatto et al., 2010; Higginson, 2010).

Succession planning is one of the fundamental area in the family business that has been reviewed in the literature, and (Sharma, 2004; Gbadegeshin, 2013). A successful succession process formed over an effective succession plan which is a critical factor to the continuity and sustainability of a family business. Moreover, in Arab societies, there

is a lack of the literature of family business succession which is virtually non-existent (Palliam et al., 2011). However, it is expected that the family business succession would become significant concern the in Arab societies. It is worth noting that to the best of the researcher's knowledge there are no previous academic studies covers the area of family businesses in Saudi Arabia in general and especially the succession planning process and its related aspects.

Research Objectives

- 1- To discover the succession process of the family business in Saudi Arabia.
- 2- To explore the role of the founder in the succession process in Saudi family businesses.
- 3- To identify the influence of the next generation preparation programme over the continuity of family businesses in Saudi Arabia.
- 4- To investigate the reasons that might lead to success or failure of the continuity of Saudi family businesses.

Research Questions

- 1- How can the succession and transfer of power between generations be managed in the Saudi Arabian family businesses?
- 2- What is the role of the founder in the family business succession?
- 3- What are the factors of success or failure that influence family businesses continuity in Saudi Arabia?
- 4- What are the criteria for the preparation programme for the next generation to join the family businesses in Saudi Arabia?

8.3 The Contribution of the Study

This study is a step forward towards a better understanding of the family business in Saudi Arabia. The current study contributed to the literature of the family business succession. As stated before research on family business succession very limited for GCC countries to date, especially for Saudi Arabia as a new context to explore a new geographic area where there is no such academic research regarding the succession.

While the exploratory effort in this study suggests a need for further study, it does make distinct contributions to family business knowledge and literature.

There are a number of contributions to knowledge that arise from this thesis. The study established the need for family business in Saudi Arabia to adopt strategic planning by the company's founder, and the need to deploy corporate governance to avoid failure of business continuity. The reason this is necessary is that large family size in Saudi Arabia, which makes succession planning important to ensure fairness and decrease the source of conflicts. Such planning can alleviate the effects of challenges and the threat of discontinuity that face Saudi family companies.

The study found that the Saudi family businesses have limited experience regarding the succession planning because they are relatively young companies, and most of the second generation have just arrived and joined the company. For that reason, most of the founders transfer their business into a joint stock company, because it is the obvious solution that the founders can adopt to benefit from the regulations that manage this sort of firm.

The study found that the founder in Saudi family businesses has great power, derived from the social culture, and usually dominates the decisions-making. For this reason, the study results point to the succession plan and preparing the next generation as among of the most prominent roles of the founder.

The Saudi family businesses face factors that affect success and continuity. The social culture of Saudi Arabia has significant effects on the founder's management style, which tends to be centralised, dominant, and bureaucratic. Therefore, this study suggests that if the founder changes his style to accept sharing the power and decision-making with others and accept new ideas this can increase the likelihood of achieving continuity.

The outcome of this study found that the succession plan requires the preparation of the next generation to take leadership of companies in the future, which is considered to be one of the highly critical factors of success in terms of continuity. Therefore, a planned programme for preparing and educating the next generation to increase their readiness from an early age to work in the company is also an important factor.

The early education in Islamic ethics and values and self-reliance is found to be an important element in such a plan. Moreover, having strong family communication is important to improve the positive relationships between the generations, which helps in reducing the conflicts, disputes and extending the family ethics and values across generations.

The study found that formal education is considered as one of the key elements needed in the plan for preparing the next generations. Moreover, experience is also seen as highly recommended to develop the next generation's business competencies and skills to deal with company problems in the future.

The study found that family ties and family consistency are one of the important aspects that ensure the family members work to keep the business strong, as much as they can, to the extent that the founder in some cases will suspend the business regulations to ensure and maintain a good relationship with other members.

Furthermore, the study identified the successful factors for family business in Saudi Arabia. These factors include: 1) The importance of the early preparation plan of the next generation, 2) The separation of the ownership and management of the company, 3) The attraction of talented non-family individuals to work in the enterprise, 4) the successful companies should be studied and emulated to benefit from their experience to success and to avoid factors lead to failure, 5) the commitment to ethical values and Islamic morals and legitimacy and the role of philanthropic and charitable endowments for the continuation of Saudi family business across generations which both reflect the company and family.

Moreover, the study points the factors of family business failure in Saudi Arabia. These factors include 1) centralization style of management by founders, 2) family conflict, 3) lack of clarity and transparency of family business activities.

8.4 Practical implications

The findings described in the current study have several possible implications for Saudi family business, and for private organisations in general. This section presents descriptions of the aspects of the business environment to which the findings could be applied.

It is crucial for founders to appreciate the importance of succession for the family business, which is indispensable to the future success and survival of the company. Moreover, this is important because of the impact of family businesses and their collective participation in the economy regarding GDP and employment, as emphasised in the literature. The family business continuation is, however, reliant on succession, making it one of the most important elements in business. Thus, the founders must take

into account the preparation and create the succession plan from the early stage of the company to assure business survival in the future.

As part of this plan the family business management should apply corporate governance within its context, to regulate all aspects of the company and the roles family members, to improve the performance and to control the source of conflicts, to secure it is future. One of the main implications of this is that the family business management should consider seeking the advice of a professional consultation for the process of succession. The complexity of the process, as well as the various perspectives and concerns of the stakeholders involved have to be respected within the succession.

Founders who wish to prepare family successors should consider the powerful influence of the preparation plan of the successor generation from an early time, including education, developing managerial skills, experience, sharing family values, and sharing business and ethical values with the successor generation.

The founders should also have a conversation with the successors that focuses on the contradictory or challenging aspects of the business as well as the successes and positive experiences. This emphasis on the positive returns gives possible family successors a motivation to join the business.

Founders and families should be understanding of the importance to potential successors of early informal exposure to the business, such as a child visiting the place of business or attending with the founder while managing the business. This early exposure can promote the transfer knowledge and experience to the next generation of the family business.

The government agencies should improve the current laws and regulations, as well as guidelines and other administrative practices, to help and monitor family businesses,

which to help to regulate and evaluate the companies' performance and to encourage business continuity.

8.5 Limitations of the study

The limitations of this research match those that are inevitable in any research based on a single geographic location with a restricted combination of study participants. The process of selecting participants for the interviews was confirmed to be challenging, as many founders and next generation members had limited time, and they were busy or traveling to places where they could not participate.

Studying the phenomenon of family business succession in Saudi Arabia is uncommon. Consequently, the participants had doubts and hesitated to participate because they thought it might disclose information about the privacy of their family, wealth, and business.

The findings and results of the study are limited only to Saudi Arabia. Since Saudi Arabia has its unique culture, business environment, companies, and position, the findings of the study cannot be generalised to other countries.

Another issue worth highlighting here is that the participants of the study were essentially males, with no female participants. This is due to religious and cultural barriers, indicating there is segregation between genders; it is challenging for a male researcher to gain direct access to female members related to Saudi family businesses.

However, within these limitations, the researcher believes that the study has been successfully completed and presents new understanding in the research area studied and sheds light on the under-researched area of family business succession in Saudi Arabia.

The study may also be affected by the researcher's individual views concerning family businesses. Regarding the current study, this influence may be because the researcher

is from a Saudi Arabian culture background. This may have affected the interpretation and representation of the findings.

The businesses were chosen by applying a certain sampling method and are hence dependent on the subjectivity of the researcher. This subjectivity could lead to potential bias in the determination of the sample and could be inspected as a limitation, as a sample that may have been beneficial for the study could have been dismissed based solely on the researcher's personal view.

An added probable limitation through the study was the honesty of the interviewees during the interviews. Some aspects of the businesses may have been squeezed to represent a more positive appearance of the business, and this could affect the findings in the study. Because the study was undertaken through face-to-face interviews, the need to represent a positive picture was greater; nevertheless, it also presented the researcher with the possibility of extracting more data from the respondent if data seemed lacking or obscure.

8.6 Suggestions for future research

Many issues were raised in this study requiring further attention. Recognising that this thesis has no precedent in Saudi Arabia, being the first of its kind, it is expected that it will open new avenues for family businesses researchers in the Kingdom to carry out more studies on this crucial subject. Studying family business succession problems in Saudi Arabia is important and there are several opportunities for future research.

Some suggestions for future research can be made from the findings and results of this study. The future researchers could strengthen the findings by using quantitative or mixed methods to classify the factors that influence family business succession.

Moreover, using the questionnaire instrument could open the way to generalise some results regarding the succession in Saudi Arabia.

The future research might include studying the relationship between the family businesses succession rate and Islamic ethics and values.

The relationship between the Saudi culture and the rate of corporate governance implementation could be studied, particularly the extent to which applying corporate governance is reflected in the rate of successful succession.

Moreover, future research could be conducted to develop a comprehensive programme compatible with the Saudi culture, provided to help the founders to construct and implement a successful preparation plan for developing the next generation. Furthermore, the successors' involvement in the succession process could be examined. The outcomes of this study show that successors have a notable role in accelerating the process, and this does not seem to be a well-investigated point.

Appendices

Appendix A: Covering letters (Arabic – English language)

Appendix B: The interview questions

Appendix C: The interview protocol

Appendix D: The Saudi Arabian company law

Appendix A: Covering letters



Dear Sir

Thank you for devoting part of your time and accepted to participate in the interviews for the compilation of my Ph.D. research in the area of Family business at the University of Abertay Dundee - Scotland.

This exploratory study is focused on Saudi Family Businesses to understand the phenomena of these types of companies. Succession is considered one of the most influential factors that are affecting the continuity of the family businesses through the successive generations. Therefore, the study focuses on understanding the nature of succession and its related aspects in Saudi Arabia. The study is also focused on understanding the preparation plan to develop the next generations to lead the businesses in the future.

I would like to point out that, this research is subject to scientific and ethical standards that applied in the British education, which requires a prior authorisation to conduct the research interviews. Thus, after achieving the standards and approved by competent committees of the University. I am happy to inform you that the approval for the research has been obtained after the submission of all the guarantees relating to the confidentiality of the information and the guarantees that the information will not be used in other than research purposes whereas the standards include maintaining the confidentiality of the names of the participants and not include them in the research.

Yours grateful

Researcher

Riyadh Alshaeel



السيد الفاضل المحترم

السلام عليكم ورحمة الله وبركاته

أتقدم لك بالشكر الجزيل على قبولك المشاركة في اجراء المقابلات المتعلقة باستكمال البحث لنيل درجة الدكتوراه في مجال الشركات العائلية من جامعة ابرتاي دندي - اسكتلندا.

تركز هذه الدراسة الاستكشافية على الشركات العائلية السعودية لفهم بعض الظواهر المتعلقة بطبيعة هذا النوع من الشركات , وتعتبر عملية التوريث ونقل السلطة احد اهم المؤثرات على نجاح و استمرارية الشركات العائلية عبر الاجيال المتعاقبة للعائلة , لذا تركز الدراسة على فهم طبيعة التوريث والعوامل المؤثرة عليها , كما تهتم الدراسة بفهم طبيعة تطوير بناء العائلة والبرنامج المتبع لدى المؤسسون لتجهيز الابناء لقيادة شركاتهم العائلية في المستقبل.

ارغب في الاشارة هنا ان هذا البحث يخضع للمعايير العلمية والاخلاقية المعتمدة في التعليم البريطاني والتي تشترط حصول الاذن المسبق لأجراء البحث بعد تحقيق المعايير والمصادقة عليها من قبل اللجان المختصة في الجامعة , وافيدكم انه تم الحصول على الموافقة لأجراء البحث بعد تقديم كافة الضمانات المتعلقة بسرية المعلومات وعدم استخدامها لغير الغرض البحثي كما تتضمن المعايير الحفاظ على سرية اسماء المشاركين وعدم اعلانها او ادراجها في البحث.

ويسعدني في هذه العجالة ان اثنى على دعمكم الكبير ومساهمتم الفاعلة في مسيرة العلم والتطور واثراء الجانب البحثي من خلال مشاركتكم في هذه الدراسة واعطاءه جزء من وقتكم الثمين.

الباحث

رياض بن احمد الشعيل

Appendix B: The interview questions

This group of questions represents the interview questions directed to the founders of family businesses and their children who are working with them in their companies in Saudi Arabia. This study aims to understand and describe the process of transferring power to the next generation in family businesses which is reflected in its continuity over family generations. The study also aims to identify and discover the programme for preparing the next generation, and its elements to develop their abilities to join the company and preparing them to lead it in the future.

First group
How do the succession process and the transfer of power and leadership through family generations in the company work?
1. How is the transfer of power and leadership to the new generations of the family prepared and executed?
2. How important is the succession plan to the continuity of the family business? Why?
3. Do you have a systematic and declared succession plan? When did you think about it? For what reasons?
4. What are the suitable methods (ways) for the succession process in Saudi family business?
5. What are the reasons for the success and continuity of Saudi family businesses?
6. What are the reasons for the failure and collapse of Saudi family businesses?

Second group
What is the nature of the relationship between the founder, their children, and family members? How does the treatment among them affect the succession process and the continuity of the business?
1. To what extent can the children express their views about the progress of the work? And how their views are dealt with?
2. Does the founder take decision solely? Or through meetings involving all family members?
3. How does the founder practice power in the company? Does he allow the children to share the power with him? How?
4. How does the founder deal with the idea of delegating responsibilities and work to the other?
5. Was the establishment and building of the business based on achieving goals related the welfare of the family or individual goals only? How?
6. What is the link between the family and the company? Why does this link exist? What is its importance?
7. Is there a family council that attends the family affairs and solves their conflicts? How effective is the council and what is its relationship to the company?
8. What are the role of the social customs and traditions and religious guidance in the relationship among the family members and the continuity of the business?

Third group
How are family children prepared and developed to join the company? How are they prepared to lead the company in the future?
1. How important is the development of the children of the family to the continuity of the company? Why?
2. Are there any specific conditions and criteria for the children of the family to join the company? What are they?
3. What is the role of the founder in helping the children to achieve these conditions and criteria?
4. What is the role of the family meetings in preparing their children to join the company?
5. What is role of the family in choosing the successor? How are competitions and conflicts around this reduced?
6. What is your opinion about permitting children to work outside the company and choose their future career? Does this contradict the family values and goals?
7. What is the plan for salary, financial compensations, and promotions for the children who are working in the company?
8. Is there a programme that gives share of the ownership or stocks to the children who are working in the company? Why? What is its importance?
9. What is the importance of the founder declaring his intention and plan for retirement from the company?

تمثل هذه المجموعة اسئلة المقابلات الموجهة لمؤسسي الشركات العائلية وابنائهم اللذين يعملون في الشركة في المملكة العربية السعودية، حيث تهدف الدراسة للتعرف ووصف عملية التوريث ونقل السلطة في الشركات العائلية التي تنعكس على استمراريته عبر اجيال العائلة، كما تهدف الدراسة على التعرف واستكشاف برنامج اعداد ابناء العائلة وعناصره لتطوير قدراتهم للانضمام للعمل في الشركة وتهيئتهم لقيادتها في المستقبل.

المجموعة الاولى:	
كيف تتم عملية التوريث وانتقال السلطة والقيادة عبر اجيال العائلة في الشركة؟	
1-	كيف يتم اعداد وتنفيذ نقل السلطة والقيادة الادارية للأجيال الجديدة من ابناء العائلة ؟
2-	ما مدى اهمية خطة التوريث في استمرار الشركة العائلية؟ لماذا؟
3-	هل لديكم خطة توريث منهجية ومعلنة؟ متى فكرتم بها؟ ما الاسباب التي دعت الى ذلك؟
4-	ماهي الاساليب (الطرق) المناسبة لعملية التوريث في الشركات السعودية؟
5-	ماهي اسباب نجاح الشركات العائلية السعودية واستمرارها؟
6-	ماهي اسباب فشل الشركات العائلية السعودية وانهيارها؟

المجموعة الثانية:	
ماهي طبيعة العلاقات بين المؤسس وجيل الابناء و افراد العائلة ؟ وكيف تؤثر طريقة التعامل فيما بينهم على عملية التوريث و استمرار الشركة في المستقبل ؟	
1-	الى أي درجة يستطيع ان يعبر الابناء عن انطباعاتهم عن سير العمل ؟ وكيف يتم التعامل مع آرائهم حول سير العمل؟
2-	هل يتم اتخاذ القرارات بشكل فردي من قبل المؤسس؟ ام من خلال اجتماعات تضم افراد العائلة ؟
3-	كيف يمارس المؤسس السلطة في الشركة؟ هل يسمح للأبناء مشاركته السلطة ؟ كيف؟
4-	كيف يتعامل المؤسس مع فكرة تفويض الأعمال والمسؤوليات للآخرين؟
5-	هل تأسيس وبناء الشركة قام على تحقيق الاهداف المرتبطة بمصلحة العائلة فقط ام اخذت في الحسبان الاهداف الفردية؟ كيف؟
6-	ما هو الرابط بين الشركة والعائلة ؟ ما سبب وجود الرابط؟ ما هي اهميته؟
7-	هل هناك مجلس للعائلة يقوم على شؤون العائلة وحل نزاعاتها؟ ما مدى فعالية المجلس وعلاقته بالشركة؟
8-	ما هو دور العادات والتقاليد الاجتماعية والتوجيهات الدينية في العلاقات بين افراد العائلة ودوره في استمرارية الشركة؟

المجموعة الثالثة:	
كيف يتم اعداد وتطوير ابناء العائلة للانضمام للعمل في الشركة وتهيئتهم لقيادتها في المستقبل؟	
1-	ما اهمية تطوير ابناء العائلة لاستمرار الشركة؟ لماذا؟
2-	هل هناك معايير وشروط محددة لانضمام ابناء العائلة للشركة ؟ ما هي المعايير؟
3-	ما هو دور المؤسس في مساعدة الابناء في تحقيق الشروط والمعايير ؟ وتحقيق اهدافهم الخاصة؟

4-	ما دور الاجتماعات العائلية في اعداد ابناء العائلة للانخراط في الشركة؟
5-	ما هو دور العائلة في اختيار الوريث ؟ وكيف يتم تقليل حجم المنافسة و الاختلاف حوله؟
6-	ما رأيك في السماح للأبناء بالعمل خارج الشركة واختيار مستقبلهم الوظيفي؟ هل يتعارض مع قيم العائلة واهدافها؟
7-	ماهي خطة الرواتب و التعويضات المالية و الترقيات لأبناء العائلة العاملون في الشركة؟
8-	هل هناك برنامج يمنح حصة من الملكية او الاسهم للأبناء الملتحقين بالعمل؟ لماذا؟ ما اهميتها؟
9-	ما اهمية اعلان المؤسس نيته وخطته للتقاعد من الشركة ؟

Appendix C: The interview protocol

1. The researcher thanks the participant.
2. The researcher introduces himself.
3. The researcher explains the purpose of the study and the interview process.
4. The researcher reassures the confidentiality of the interview.
5. The researcher asks for permission to audio record the interview.
6. The researcher informs the participant that the participation in the study is voluntary and that withdrawal is permitted at any time without penalty.
7. The researcher asks if the participant has any questions or concerns before beginning the interview.
8. The researcher proceeds with the interview.
9. After the interview, the researcher asks if the participant has anything else to add or questions about the study.
10. The researcher asks if the participant would welcome follow-up questions should more clarification be necessary.
11. The researcher offers to send the participant a copy of the abstract when the study is completed.
12. The researcher reassures confidentiality and thanks the participant.

Appendix D: The Saudi Arabian Company Law

Company Laws

The Companies Law is the principal body of legislation governing companies. Saudi company law recognizes eight forms of companies. The most common forms are limited liability companies (LLC), joint stock companies, general partnerships and limited partnerships. This Guide focuses on these four forms. The less common company forms are partnerships limited by shares and joint ventures. Apart from the above, Shari'a law specifies a number of other types of companies, which cannot, however, be used by foreign investors.

In practice, foreigners usually establish LLCs. Partnerships and joint stock companies are only established in exceptional cases.

Limited Liability Company

LLCs are a popular corporate vehicle among foreign investors in Saudi Arabia, because they are simple to establish and administer and the personal liability of each of the partners is limited to the individual partner's contribution to the company's share capital. Explained below are some of the important characteristics of LLCs under the Companies Law and the relevant Ministry of Commerce and Industry guidelines.

- a. Memorandum of Association
To increase the likelihood of the government's timely approval, acceptance and registration of an LLC, the memorandum of association, and the governing documents of the LLC should follow the model memorandum of association issued by the Ministry of Commerce and Industry.
The memorandum of association must contain the following:
 1. Name and form of the company, and its objects and head office address;
 2. Name, address, occupation and nationality of the partners;
 3. Names of the manager(s), mentioning those who are also partners (optional);
 4. Names of the members of the supervisory board, if applicable;
 5. Share capital, amount of the contributions in cash and in kind, description of the contributions and names of the contributors;
 6. Method of profit distribution;
 7. Duration of the company; and
 8. The form of notices that may be issued by the company to its shareholders.
- b. Minimum Capital
The minimum capital of an LLC with foreign participation is SR 100,000 under the Foreign Investment Law. The required amount is increased to SR 5,000,000 for industrial projects and SR 25,000,000 for agricultural projects. The Board of Directors of SAGIA may reduce the minimum invested capital in projects established in areas specified by it or in export projects or those which require considerable technical experience. The share capital must be fully paid when the company is established. Cash contributions must be paid into an account with a local Saudi bank and are frozen, until the bank is presented with documents showing that the establishment formalities have been completed. The partners of the LLC are personally jointly liable to third parties for any inaccuracies in evaluation of contributions in kind to the share capital of the LLC.
- c. Partners, Name
An LLC must have at least two but not more than fifty partners who may be legal entities or individuals. A company will be automatically dissolved if the number of its partners falls below two. Foreign companies that intend to establish a Saudi LLC as a 100% subsidiary usually arrange for a minority stake to be held by a dependent company or by an individual of their choice. Others prefer to establish a permanent branch.

The share capital of LLCs is divided into shares of a uniform nominal value. Transfers of shares to any third party are permitted, subject to pre-emption rights in favor of the other partners and the approval of SAGIA and the Ministry of Commerce and Industry. The company's SAGIA licence, Commercial Registration and Articles of Association must be amended following any share transfer. Certain other important obligations of the partners, which are not contained in the model statutes of association, such as agreements relating to the transfer of shares (e.g. pre-emptive rights, put or call options), side letters, funding and the exercise of voting rights are usually contained in a shareholders' or joint venture agreement. Such agreements, which are not registered with the Ministry of Commerce and Industry but are nevertheless

enforceable before the courts, are common practice, as they provide an opportunity for partners to agree to details regarding the administration of the company, which details may not be included in the model statutes. In many cases, a shareholders' agreement is the only protection for foreign partner(s) in an LLC. Shareholders' agreements existing outside of the LLC statutes, are permitted, enforceable, and encouraged as long as parties to such agreements remember the caveat that, like all other contracts in Saudi Arabia, the terms of the shareholders' agreements must not contravene the Shari'a and the mandatory provisions of the Companies Law. If, however, the shareholders' agreements contravene the registered Articles of Association then the most recent stipulation will prevail as between the shareholders, but not vis-à-vis third parties.

Unlike the legislation of other GCC states Saudi law does not limit the level of foreign participation allowed in Saudi LLCs. Companies which are owned by foreigners may also be registered in the Commercial Register. Moreover, the new Foreign Investment Law that entered into force in 1421 H.

[2000 G.] appears to encourage the establishment of 100% foreign-owned investment projects, be it in the form of companies, branches or individual establishments.

Miscellaneous issues to bear in mind are that the company's name may consist of partners' names or may reflect the company's object. The company's stationary should contain its Commercial Registration number, as well as the amount of the paid-up capital and the fact that the company is an LLC.

d. Management

An LLC may have one or more managers. There is no requirement that any manager be a Saudi national. If there is more than one manager all managers may be authorized by the partners to represent the company individually or collectively. The manager's representative authority generally encompasses all transactions and business relating to the company's normal corporate and business activities. According to the model statutes, specific transactions may, however, be subject to the prior approval of the partners. Usually, the restrictions are determined by the first partners meeting and are registered in the Commercial Register. A general manager is frequently designated for the supervision of the day to day business of the company. It is not a requirement that the general manager be a partner.

e. Fiscal Year

It should be noted that it is advisable to provide expressly that the fiscal year of the company is according to the Gregorian calendar, otherwise the fiscal year is by law twelve hijri calendar months. The partners are also free to choose the date of the start of the company's fiscal year.

f. Supervisory Board

If an LLC has more than 20 shareholders it must have a supervisory board consisting of at least three members. The supervisory board's main duty is to supervise the management of the company, to advise on issues referred to it by the managers, and to authorize assignment of assets belonging to the company, if foreseen in the company's statutes. The model statutes contain provisions relating to supervisory boards.

g. Transfer of Shares

Shares are transferred by a formal notarized agreement, unless the company's statutes provide otherwise. Transfers take place before a notary public after having obtained the approval of SAGIA and the Ministry of Commerce and Industry. Shares must be offered first to the other partners (in the proportion of their participation in the capital of the company) before they may be sold to third parties. A partners' resolution approving the sale and stating that the shares were offered to all of the other partners will be required. The statutes may contain further provisions and may modify the rights of the partners to some extent.

h. Liability of Partners

The liability of LLC partners towards third parties is limited by law. They are liable only to the extent of their investment in the capital of the company. Partners may be jointly liable towards third parties for the estimated value of contributions in kind for a period of three years. If the company becomes insolvent, the partners are theoretically only liable for their share of the company's capital. In practice, however,

this principle is normally not recognized by the courts because it is not supported by the corporate concepts of Shari'a law.

Under the Companies law partners are jointly personally liable to pay all of the company's debts if the company's losses exceed 75% of its stated capital and no resolution of the partners providing for the continuation of the company (and payment of certain of its debts) is

adopted within thirty days. Such resolution should either provide that the company shall continue, with the commitment of the partners to pay its debt, or that the company be dissolved.

i. **Liability of Management**

Under Article 168 of the Companies Law, the managers of an LLC are jointly liable for damages suffered by the partners, the company, or third parties due to any failure on their part to observe the provisions of the Companies Law or the LLC's governing documents. Except in cases of fraud, for which the Companies Law provides no statute of limitations this liability lapses three years after the discovery of the wrongful act.

Partnerships

While for foreign tax reasons it may, in some cases, be advantageous for foreign parties to operate in Saudi Arabia through partnerships foreigners may not currently establish or participate in partnerships under Saudi Arabian law. The following types of partnerships are recognized in Saudi Arabia:

- General Partnerships;
- Limited Partnerships; and
- Partnerships Limited by Shares.

a. **General Partnerships**

A general partnership is an association of two or more persons who are jointly and personally liable for partnership debts. The partnership is a separate legal entity and may transact business in its own name. Partners may not transfer partnership interests to other parties without the unanimous consent of the other partners. No minimum capital is required under the Companies Law for the establishment of a partnership; there are, however, minimum capital requirements under the Foreign Investment Law. Contribution terms are set out in the partnership agreement, which must be registered with the Ministry of Commerce and Industry. General partnerships are a common form of business organization used by Saudi nationals.

b. **Limited Partnerships**

Limited partnerships include two kinds of partners: general partners and limited partners. General partners are personally liable for partnership debts to the full extent of their personal assets. Limited partners are liable for partnership debts to the extent of their investment in the partnership. A limited partnership is registered in the same manner as a general partnership.

c. **Partnerships Limited by Shares**

A partnership limited by shares is a partnership consisting of at least one general partner who is personally liable for partnership debts to the extent of his personal assets, and at least four shareholders who are responsible for partnership debts only to the extent of their shares in the capital. The minimum capital of a partnership limited by shares is SR 1,000,000 under the Companies law. The partnership is managed by one or more general partners. A supervisory board elected by the partners' assembly supervises the acts of the general (managing) partner(s). The provisions for registering joint stock companies apply to the incorporation of a partnership limited by shares.

Joint Stock Companies

According to Article 52 of the Company Law, the establishment of joint stock companies generally requires an authorization from the Minister of Commerce after reviewing a proposed company's "feasibility" study. The law requires the authorization through a Royal Decree based on the approval of the Council of Ministers for the formation of any joint stock companies with concessions, undertaking public sector projects, receiving assistance from the State, in which the State or other public institutions participate or for joint stock companies engaging in a banking business.

In general, the provisions applicable to the administration of joint stock companies are more detailed than those applicable to limited liability companies. However, the requirements are not as strict as those found in certain Civil Law jurisdictions and, as a result, the costs of administration of a joint stock company are not significantly higher than those relating to the administration of a limited liability company.

a. **Articles of Association**

In order to avoid undue delay in formation of the joint stock company, the proposed articles of association of joint stock companies should follow a model issued by the Ministry of Commerce

and Industry. The model is generally used, without any major changes, in order to avoid delay in the registration of the company, and because the relevant laws only permit the articles of association of a joint stock company to deviate from the model "for reasons deemed acceptable by the Minister". Shareholders of joint stock companies frequently enter into shareholders' agreements in addition to the articles of association.

b. Minimum Capital and Shareholders

Joint stock companies must have a minimum capital of SR 2,000,000 (except where the Foreign Investment Law sets a higher requirement), divided into negotiable shares of equal value of at least SR 50. If the shares are to be publicly traded, joint stock companies must have a minimum capital of SR 10,000,000. Joint stock companies must have at least five shareholders, whose liability is limited to the amount payable on their shares. The shares may be either registered or "bearer" shares. Each shareholder is under an obligation to pay at least 25 % of the amount of the cash contribution at the time of the company's establishment. The total paid in capital at the time of incorporation must amount to at least 50 % of the authorized/issued capital.

Cash contributions must be paid into an account with one of the banks designated by the Minister of Commerce. The funds are frozen until the bank is presented with documents confirming that the formation formalities have been completed.

Joint stock companies may hold their own shares, but only under certain restrictive conditions. Examples are cases in which the company wishes to reduce its capital, or if the shares in question form part of the assets and liabilities of an estate to be acquired by the company.

c. Shares

In principle, all shares grant their owners equal rights. A joint stock company may have nominative or bearer shares and preferred shares. Nominative shares are issued in the name of the shareholder concerned. Bearer shares must be fully paid up on issue. Preferred shares conferring preferred rights in respect of profit distribution and on liquidation may be issued, but may not exceed 50% of the capital.

d. Saudi Participation, Name

Joint stock companies may be wholly owned by foreigners. The participation of a Saudi investor is no longer compulsory. The name of a joint stock company may not contain the name of a natural person, unless the company's object is the use of a patent or an invention registered in the name of that person or unless the company acquires a commercial firm and adopts the name of the latter as its own name. All official papers of the company, such as letterheads, contracts, invoices and other documents given to third parties must state the name, the type of company, the domicile, as well as the issued and the paid in capital of the company. Non-compliance with this obligation may, under certain circumstances, lead to unlimited liability of the person acting in the name of the company.

e. Management

Joint stock companies are managed by a board of directors, which must be composed of at least 3 directors. The board of directors must elect a chairman and a managing director among its members. A single director may hold both the office of chairman and managing director. There is no supervisory board in addition to the board of directors under Saudi law.

The day-to-day business of a joint stock company is usually carried out by the managing director or by an employee vested by the board of directors with the power to represent the company ("general manager") in its daily activities. The latter is not a member of the board of directors, but may apply to attend the meetings. Members of the board of directors may not appoint other members to act on their behalf by proxy in the board meetings, unless this is specifically authorized in the articles of association.

Resolutions of the board of directors are valid if at least half of its members are present and if the number of those present is not less than three, unless the company's bylaws require the attendance of a greater percentage or number of members of the board of directors. The minutes of the board meetings must be entered regularly after each meeting in a special, officially stamped register and must be signed by the chairman and the secretary. Members of the board of directors must own shares in the company's stock, of a nominal value of not less than SR 10,000. These shares should, within thirty days of the date of appointment of a director, be deposited in one of the banks designated by the Minister of Commerce, and are set aside as a guarantee against the individual directors' liability.

f. Shareholders' Meetings

Saudi law distinguishes between ordinary and extraordinary shareholders' meetings. An

ordinary shareholders' meeting must be held at least once a year, and at the latest within six months after the end of the company's fiscal year. Shareholders may exercise their voting rights in person or by proxy. A proxy may, however, only be issued to another shareholder who is not a director of the company. An ordinary shareholders' meeting shall only be valid if attended by shareholders representing at least 50% of the company's share capital, unless the articles of association of the company require a higher level of shareholder representation. Resolutions of ordinary shareholders' meetings are usually adopted by simple majority of votes present unless the statutes of the company provide for a higher proportion.

Extraordinary shareholders' meetings are convened in order to amend the articles of association of the company, with exception of the following amendments:

- Depriving shareholders of any of their basic rights as shareholders in the company;
- Amendments increasing the financial liability of any of the shareholders;
- Amendments to the object of the company;
- Transferring the registered office of the company from the Kingdom to a foreign country; and
- Changing the nationality of the company.

Extraordinary shareholders' meetings are convened by the board of directors upon request of shareholders representing at least 10% of the capital. Resolutions of extraordinary shareholders' meetings are adopted by a majority of two thirds of the shares represented at the meeting. If the resolution concerns an amendment to the statutes, such as an increase or decrease in capital, an extension of the company's term or a merger or dissolution, a majority of three quarters of the votes present is required.

g. Transfer of Shares

Shares in joint stock companies are freely transferable, with the exception of founders' shares, which may not be negotiated until after publication of the balance sheets for two complete financial years. Unlike shareholders of LLCs, the shareholders of joint stock companies have a right of pre-emption only if provided for in the company's Articles of Association or in any Shareholders' Agreements.

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